

JUNE 1978

Nation's Business

the business advocate magazine

circulation at all-time high—1,170,000



Inflation:
Why Prospects
Are Gloomy



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\$54,077**

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*Source: Dartnell Institute of Business Research

A 13¢ business letter (whose real costs average \$4.47), turns out to be a lot more expensive than a brief Long Distance call.

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Nation's Business

VOLUME 66 • NUMBER 6 • JUNE 1978

Nation's Business is the business advocate magazine leading the effort to strengthen the private enterprise system to advance human progress.

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Cover Photo: Barry Blackman—Lensman

Nation's Business is published monthly at 1615 H Street N. W., Washington, D. C. 20062 by the Chamber of Commerce of the United States. Editorial and circulation headquarters—1615 H Street N. W., Washington, D. C. 20062; Editorial—(202) 659-6010; Circulation—(202) 659-6020. Advertising headquarters—711 Third Avenue, New York, N. Y. 10017; telephone (212) 557-9886.

Subscription rates: United States and possessions, \$49.75 for three years; in Canada, \$20 a year. Printed in U. S. A. Second class postage paid at Chicago, Ill.

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Why Bob Ryerse uses a Pitney Bowes postage meter to mail as few as five letters a day.

For 25 years now, the people of Simcoe, Ontario have been buying their flowers from Bob Ryerse at Ryerse Brothers Flowers on Norfolk Street, North.

The place is a landmark with its breathtaking bloom of azaleas and geraniums planted around the grounds every spring. Bob runs the business with his wife Barb and their teenage daughter Shelley, who helps out after school.

When Bob and Barb aren't taking care of their customers, they're taking care of their outgoing mail. Correspondence, statements and invoices—it's all essential and it all has to get out. As small as the flower shop is, Bob still found plenty of room to misplace or lose his stamps.

So just about five years ago, Bob and Barb got themselves a Pitney Bowes Touchmatic® postage meter mailing machine.

"Today getting the mail out every day is an easy job," says Bob. "My Touchmatic not only meters stamps and moistens the envelopes fast, but it even keeps an automatic record of what I've spent on postage for the year."

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The Nation's Business WASHINGTON LETTER

► THE MESSAGE IS CLEAR--Uncle Sam does too much to business, especially small business.

Too much regulation. Too many taxes. Too much of everything.

From Massachusetts to California. From Montana to Florida.

Many business people and managers of chambers of commerce--each representing scores of business firms--gathered here last month and told us that they're definitely worried.

Worried about too much government.

► SMALL BUSINESS AN ENDANGERED SPECIES? That's what many people who run small firms told us--if the federal government continues its present course.

They were among the business leaders and local chamber officers here for the 66th annual meeting of the Chamber of Commerce of the U. S.

They heard top business, government leaders talk about the state of the economy, about Social Security and other taxes, about national health care.

About the issues that affect them in their business and personal lives.

Business executives talked about small firms' problems.

► HERE'S WHAT THEY SAID--

Inflation, condition of economy, federal regulations, taxes are top problems most burdensome or harmful to small business.

National Chamber polls also showed respondents think putting reins on government spending would be best action Congress, President could take at this time to help reduce inflation.

Most respondents feel impact of Carter administration's economic policies harmful and will continue to be harmful.

Most feel that taxes should be cut to

stimulate economy, that overall business conditions will not improve much in coming year.

Also, most say their families' financial condition has not improved from a year ago.

► INCREASED PRODUCTIVITY, that's one key to solving America's inflation problems, more and more economists say.

Example:

Former Federal Reserve Board Chairman Arthur Burns believes the federal government should create a national productivity center with objective of increasing output per man-hour in factories and offices.

He used the closing dinner audience of the National Chamber's annual meeting to discuss the issue, his first major public address since leaving government.

He said:

"This country has to go back to work."

► BIGGEST PRODUCTIVITY DROP--in four years--occurred during first quarter of this year.

Bureau of Labor Statistics says drop in private sector productivity--output per hour--was 3.6 percent from last quarter of 1977. The figures are at an adjusted annual rate.

The decline reflected a 1.8 percent drop in private output--while hours of all working people went up 1.9 percent.

► INFLATIONARY WAGE SETTLEMENTS that may result from national labor contract negotiations this summer and fall are keeping President's inflation-fighting team very busy.

First big target: contracts covering 600,000 U. S. Postal Service workers which expire July 20.

Union members are demanding large

pay raises, cost-of-living guarantees, more supplemental benefits.

White House inflation fighters worried that, if settlement is too high, it would set stage for other labor talks.

Postal labor negotiations come on heels of coal strike settlement, which resulted in 39 percent wage and fringe benefit increase for union miners over three years.

That inflationary coal pay settlement was blessed by White House, which now finds AFL-CIO boss George Meany balking at any ceilings on wage demands.

► **LABOR CONTRACT PROBLEMS** not unique to private sector.

In fact, Labor Department is having problems with its own local, No. 12 of American Federation of Government Employees.

Picketing of department's national headquarters is frequent sight these days.

Dispute centers on memorandum of agreement signed by department and Local 12 some 21 months ago.

► **SIGNING WAS COERCED**, under threat of union picketing a Labor Day bicentennial affair, say Labor Department officials.

Memorandum between department and Local 12 of AFGE said all positions within bargaining unit could be filled only by employees in the unit.

Two exceptions: entry level positions and special skill positions which unit workers could not fill.

Local 12 covers Labor Department in Washington--and the agreement appeared very close to closed shop for middle or senior-level nongovernment people seeking employment here with Labor Department.

Secretary of Labor Ray Marshall last August sought Civil Service ruling on legality of agreement. Response: It is illegal.

Meanwhile, battle continues.

► **EXPECT HOUSE ACTION** this month or next on renewal of Comprehensive Employment and Training Act.

That's the federal multibillion-dollar employment training and public-

service jobs program. Act expires this year, and renewal is anticipated.

Conservative representatives may push for less spending in public-service jobs area once measure reaches floor.

► **NEW RIGHT FOR CORPORATIONS** as result of recent Supreme Court decision.

Case involves Massachusetts legal battle over use of corporate funds to influence a referendum.

In 5-4 decision, high court said:

Speech itself has an "inherent worth" regardless of speakers. First Amendment protects right of audience to hear that speech.

► **IMPACT OF DECISION** by Supreme Court in Massachusetts case may affect your corporation in five areas.

National Chamber Litigation Center lists the five this way:

1. Corporations can participate in public debate on all matters subject to review by voters.

2. Case may prompt legal action in area of reporting on corporate lobbying activities. Question centers on whether reporting requirement would be punitive and thus restrict free speech.

3. Case may result in different tax treatment by IRS on issue of grass-roots lobbying activities.

Grass-roots lobbying now may limit tax deductions, which could result in more taxes for a corporation. Question involves whether limiting tax deductions would tend to restrict free speech or not.

4. Case could result in financial contributions to political candidates or independent expenditures on behalf of candidates--using corporate funds. This is very iffy and will be subject of much debate.

► **CORPORATE RESPONSIBILITY** is fifth area of impact resulting from recent Supreme Court decision.

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Dissent on the Panama Canal

Back in the innocent days of November, 1977, when we all still believed we had a United States Senate sensitive to the wishes of the electorate, you asked: "Should We Turn the Canal Over to Panama?"

Now the great debate has ended; the vote has been taken, and 68 of our senators have decided that it would be in the best interest of the people of the U.S. to have the canal taken away from us and to pay an exorbitant fee for the privilege of giving it away.

A strange and curious stillness has fallen over the Potomac, and there is not a murmur of protest.

I am a traveling sales representative. I visit many parts of the country. Businessmen have indicated to me their dismay that not a voice has been raised in indignation over the results of that vote to retreat from responsibility. Still others (a very few, fortunately) have said: "Well, I guess they know what they are doing down there, and it will all be different by the year 2000" [when Panama takes ownership and control of the canal].

My dismay comes from the prospect that there may not be a Republic of Panama, as we know it, in the year 2000, and that whether we like it or not, we may be called upon to defend that canal long before the end of 1999.

Can't we, as businessmen, do one small thing in the meantime? Can't we, as honest dissenters, tell our Senate that it acted unwisely and not in the best interest of the country and the people?

I have great faith in the common sense of the American businessman, and I feel that, even after the fact, if he were told the enormity of the Senate action, he would speak up and say, "Stop the retreat; stop the giveaways."

FRANK VOGEL
 Manufacturers' Representative
 New York, N. Y.

Washington and charity

Your article on the Ron Elliott family, "Getting Along on \$20,000 a Year" [April], was excellent. These folk are

not members of my particular denomination, nor do I know them, but I think they are genuine persons whose problems and joys are typical of those faced by the great mass of average Americans.

I am particularly intrigued by the fact that the Elliots give high priority to their local church. I have seen articles of a similar kind in which the "typical family budget" was presented—and there was little mention of stewardship to a church or synagogue.

A good many persons give a high priority, not just to charitable causes in general, but to specific institutions such as the church, which have meaning to them.

We trust that those in Washington will continue to recognize the importance of charitable giving on a voluntary rather than coercive basis.

JAMES L. MERRELL
 Vice President
 Christian Board of Publication
 St. Louis, Mo.

Applauds sentiment

Your April editorial, "Last Words That Should Be Famous," should be reprinted on the front page of every newspaper in the country.

If Rep. Pike means what he says [about fiscal irresponsibility in Congress], he is more conservative than any Republican I know.

ROBERT A. CONDIT
 Owner
 Mercury International, Inc.
 Houston, Texas

Farmers and fair prices

James J. Kilpatrick's moving paean to the yeomen of Rappahannock County ["The Farmer's Need for a Fair Return," February] sidesteps an obvious conclusion: The American farm sector will continue to evolve away from the small farm toward the large farming corporation able to finance the machinery necessary to profit from average crop prices.

While such a trend may diminish our national character, it is an inexorable trend.

UNFLUNK YOUR LIFE.

4 out of 5 Americans, even college graduates, would fail an 8th grade quiz on their own personal finances. The reason? The almost impossible complexities of handling money in today's world. But now, thanks to State Mutual's Financial Planning Service, there's a practical solution to this dilemma.



By Earl R. Hudson—In 30 years as a financial consultant, I've discovered a sad truth. Most people, regardless of intelligence or education, fail to come even close to exploiting their opportunities. And it isn't their fault. Because today, with the rising complexities of personal and business finances, it's difficult—without professional assistance—to keep up with constant changes in everything from taxes to the cost of living.

A proven method

Yet now, in my opinion, there is a proven method available to everyone for turning financial uncertainty into a solid, workable program for the future: State Mutual's Financial Planning Service.

In studying this service firsthand, I've found that it can help people, no matter what their income or occupation, to straighten out their financial lives. A quick example: A medical doctor began private practice after an extended period of government service. He was about to

buy life insurance without even thinking about Social Security or his government service benefits. Worse, he was unaware that his estate, someday, would be hit with excessive taxes. A State Mutual representative wisely coordinated his insurance needs with other assets and helped replan his estate to reduce the vulnerability to taxes.

The hazards of success

Here's another example, this one showing an unexpected hazard of business success. The partners in a San Francisco printing firm agreed on a stock redemption plan paid for by a combination of whole life insurance and decreasing term insurance. As the business grew and the value of the term insurance decreased, the partners were unknowingly threatened with the loss of their business if one of them died. The State Mutual representative pointed out this risk and recommended a plan to avoid it.

Perhaps the most pathetic examples I see are when people reach retirement age only to learn that the dollars aren't there to make their dreams come true. A 34-year-old self-employed architect had the foresight to discuss this possibility with a State Mutual representative. He learned, for one thing, that he could apply up to \$7500 each year in tax-deductible dollars to a plan that will not only pay him a guaranteed monthly income on retirement, but will protect his family in the intervening years.

Your objectives*

What is the State Mutual Financial Planning Service? And how does it work to change people's lives for the better? To me, it's one of the most sensible approaches ever developed for helping people manage their money. It works because it is an approach based on your feelings, and your objectives.

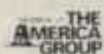
The key to this service is the State Mutual representative. When you first get together with him, he'll listen as you describe your feelings about money, and your goals for the future. He'll take you through a confidential Living Financial Estate questionnaire that further helps you to crystallize your thoughts and provide important facts, as well.

Next the representative will present a thorough analysis of your assets, insurance, and benefits, including Social Security and employee benefits. In short, everything that affects your financial life. This analysis, by the way, is supported by one of the most advanced computer-assisted programs I've seen.

What results is a clear, concise plan for turning your financial goals into action. It could even include coordination with other personal advisors—your lawyer, accountant, or banker, for instance.

Most of all, the State Mutual Financial Planning Service can smooth your way to a financially sound future. For your family, your business, yourself.

Here's my suggestion. Fill out the coupon below and send for the free 20-page booklet. It provides valuable information about State Mutual's Financial Planning Service. At the same time you may want to get in touch with the State Mutual office nearby.



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Earl R. Hudson is an author and lecturer on financial affairs. He is the former Chairman of the Board of Kennedy Sinclair, Inc., and has served on the faculties of state banking schools in New York, New Jersey, Pennsylvania, North Carolina and Florida. He has provided consultant services to State Mutual.

*State Mutual offers personal and group life and health insurance annuities. Variable annuities are offered by our subsidiary, American Variable Annuity Life Insurance Company, through registered representatives of our affiliate, SMA Equities, Inc. Mutual funds are offered through SMA Equities, Inc.

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rable consequence of the market forces Mr. Kilpatrick usually embraces with ardor. Why should the taxpayer support marginal operations through subsidy?

If farmers want to be protected from their downside risks, then they should be prepared to make a higher contribution to the public treasury in those years in which they profit. By that I mean higher than their normal federal tax obligation.

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America's first insurer

In the February, 1978, issue, NATION'S BUSINESS carried a box headlined "Insurance 5,000 Years Ago." It erroneously attributed to Ben Franklin the honor of forming the first American insurance company.

Mr. Franklin should be credited with forming the first successful American insurance company.

The first insurance company was the Friendly Society for Mutual Insurance of Houses Against Fire (1735-1741) in Charles Town (Charleston), S. C. Fire in November, 1740, burned down half the town, reducing the insurer to bankruptcy.

RONALD W. VINSON
Vice President-Washington Relations
Insurance Information Institute
Washington, D. C.

Tourism's importance

May I compliment you on your article in the April issue, "Travel: A Rising Star in the Nation's Economy." For those of us associated with the industry, it has been a long, difficult, and unending struggle to convince political and business leaders at all levels of the economic importance of tourism. Certainly Sen. Daniel Inouye and Dr. Douglas Frechtling have, along with many others, been most helpful in attaining for travel a measure of economic recognition and respect.

MICHAEL J. FRUCCI
Executive Secretary
Cape Cod Chamber of Commerce
Cape Cod, Mass.

Coal and union miners

In regard to your article on "Why Labor Unions Are Worried" [March], you made the statement that membership in the United Mine Workers has been dropping. I was wondering if you could tell me how many coal mines there are in the U.S. and how those that are not union stack up against the

union mines, as far as production is concerned.

ROBERT LYNN HALL
Executive Vice President
Alton Banking & Trust Co.
Alton, Ill.

[Editor's Note: The National Coal Association says there are 6,161 bituminous mines in the U. S. and about 300 anthracite mines. According to the Department of Energy, a little more than half of the country's coal comes from mines that employ union miners. The Bureau of Labor Statistics reports the U. S. has 223,000 working coal miners. About 160,000 are members of the United Mine Workers.]

As a private citizen, I can be upset about the coal miners' strike and how it adversely affects the national economy, but I can understand their position and their right under the law.

My main concern, however, has to do with the miners' violation of rights of others, such as:

- Threats to mine owners and mine workers in nonunion mines.
- Threats and violence to both union and nonunion truck drivers delivering coal from nonunion mines.
- Threats and violence to truck driv-

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"I cannot tell a lie..."

"I cannot tell a lie. I did it."

For years these forthright words have been taught to generations of school children as the response of a young George Washington who has just incurred his father's displeasure for cutting down the cherry tree in the back yard.

This story—and others—have given countless first-graders a lesson in the moral virtues of truth. Fortunately, that lesson sticks with most people throughout their lives.

But, it is an all too familiar story about what happens to some of these young idealists when they enter the world of politics or business. They get lied to, cheated, and stolen from until they, themselves, come to the conclusion that the key to their own success and survival is to learn to lie, cheat, and steal better than the next person. Survival of the fittest, fastest, or glibest. Or so they rationalize. (But, deep in their hearts they have never truly forgotten the lesson of George Washington.)

It is because of these kinds of people and the millions, if not billions, of dollars worth of grief that they cost the honest businessman each year that the Hagoth Corp. was formed. The Hagoth Corp. was founded just two years ago for the sole purpose of developing the Hagoth voice stress analyzer. Since then hundreds of businessmen have come to view the HAGOTH as their last line of defense against the unprincipled actions of the conscious deceivers.

That is quite a testimony in such a short period of time. But, it is true. The value of the HAGOTH is that it can detect deception. Unerringly. Simply.

Moreover, its operation is based upon simple principles—principles with which you are already familiar. First of all, we have talked about the lessons of George Washington. The importance of that story is to show that we have all been taught that truth is a virtue. And in one way or another, we all believe that that is still true. None of us are really good liars. Even the most practiced deceivers will experience a change in respiration rate. Or he may skip a heartbeat. And his mouth will get dry. And his galvanic skin response will change. There are all physiological changes that take place when a person tells a lie.

And it is because of these changes that the polygraph works. But the problem with the polygraph is that, first of all, the subject has to consent to being strapped down and wired up to the machine. Secondly, the intimidating experience of being connected to a polygraph can induce the kinds of stress that the machine is designed to measure in the first place. Therefore, the polygraph must be operated by people who have extensive training in order that they can distinguish between the stress caused by deception and the stress caused by the machine itself.

But despite the fact that the polygraph measures so many different physiological changes, it, nonetheless, ignores what scientists have discovered is one of the most reliable changes of all. That change is within the voice itself.

When a person experiences the pangs of conscience or the fear of being caught there is an 8-14 cycle micro-tremor modulation in the voice that changes. That change is the result of physiological changes that occur in the vocal cords and larynx.

And that is what the HAGOTH measures. The absence or presence of the micro-tremor—and its strength. No straps. No wires. No insults or intimidations. The subject need not even be aware that he is being tested. In fact, one of the best uses of the HAGOTH is over the telephone. Or it can sit innocently on a businessman's desk—its indicator lights visible only to the



Rick Bennett, Founder and President of Hagoth Corporation, holds the HAGOTH voice stress analyzer—a remarkable new high-technology device that identifies truthfulness as soon as it is spoken.

owner of the HAGOTH. (The front panel of the HAGOTH has eight green lights and eight red lights. The green lights indicate that a person has strong positive feelings about what he is saying—that he is telling the truth. The red lights indicate stress. The more red lights that are lit, the greater the stress—and the greater the probability of deception.)

But the real beauty of the HAGOTH is that it is easy to use. The average businessman or attorney may spend less than two hours time familiarizing himself with the HAGOTH before he uses it for negotiations of price, delivery, or settlement. And literally millions of television viewers have drawn their own conclusions as they watched demonstrations of the HAGOTH on The Today Show, the Mike Douglas Show, and on the special, The Space Age (hosted by William Shatner of Star Trek fame).

And millions more people remember the front page coverage that was given to the HAGOTH analysis of the debates between Ford and Carter, Rick Bennett, President and founder of Hagoth Corporation says of that analysis. "Had the story of those debates broken a week before the election instead of a week after, we might well have a different President today."

In this short space, we can't begin to tell you all there is to know about voice stress analysis. But we can tell you that HAGOTH works. We can tell you that your \$1500 investment in a HAGOTH is the cheapest—and perhaps only—insurance against deception that you can buy. And with our unconditional, total satisfaction, money-back guarantee, you really can't afford not to try it, can you?

Or if you are just interested in more information on voice stress analysis, we can help you there too. We're the ones who wrote the book. For \$3.00 (Washington residents add 5.4% sales tax) you can get the book HAGOTH and learn all about the fundamentals of voice stress analysis—plus some entertaining reading about past uses of the HAGOTH.

But however we can help, just give us a call at (206) 235-1020. Or drop us a line at 85 N.W. Alder Place, Dept. 20, Issaquah, Washington 98027.

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CORPORATION

And if you are really curious about whether or not everything that I am telling you is true, then let me suggest an experiment. First, you purchase a HAGOTH. Next you connect it to your telephone and give me, Rick Bennett, a call. Then you can ask me questions to your hearts content. And you will find that, like George Washington, "I cannot tell a lie."

ers delivering union or nonunion coal to a place where it is needed from a place where it is in excess.

I'd like to see our government pass laws that would assess fines and make unions pay for the cost of destruction to property and lives perpetrated by any and all of their union members during or after a strike period.

Let it then be the unions' responsibility to seek out the individual or individuals responsible.

If this were done, it wouldn't take the unions long to stop their practice of violence. As it stands today, the unions have a free hand to do what they want, while business has its hands tied behind its back.

R. P. KASPAR
Arlington Heights, Ill.

I strongly feel that strikers should not be eligible for welfare payments or food stamps.

With the large amounts of monies that we see in the union trust funds, health and welfare funds, etc., the funds should be made available to the union workers to support their families during a strike period.

The union leaders should be called upon for closer management and distribution of these monies so that situations do not occur such as the bankruptcy of the mine workers' trust fund this winter.

HAL WILLIAMS
Executive Assistant Manager
Rooms Division
Kulima Hyatt Resort Hotel
Oahu, Hawaii

Today and tomorrow

I enjoyed very much "Space: Industry's New Frontier" [February].

I might add that I was reading the magazine traveling through space at the altitude of 32,000 feet aboard a DC-10 from New York to San Francisco.

Tomorrow's 100,000-mile space journey should become just as common.

A. TERRENCE EASTON
President
International Communications
Management, Inc.
San Francisco, Calif.

Complaints of "snow job"

I read with interest the article "In Defense of Tax Loopholes" [February] by Dr. Murray L. Weidenbaum.

Dr. Weidenbaum must think he is still with the U.S. government and therefore feels the need to continue the snow job.

He concludes that taxpayers in the

middle-income category benefit most. This appears to be a direct result of the way he chose to present his figures.

We all know that the category that pays the most taxes can also be shown to have the larger dollar amount of deductions. However, what happens when he compares the dollar amount of my taxes to a President Nixon taking those deductions expected of him?

I think he will find that I, along with most of the middle class, am bearing a disproportionate amount of the total tax burden.

JAMES E. TAYLOR
Brevard, N. C.

Guarding employees' health

Re your article "The New Business Boom—Employee Fitness" [February]. Employers should consider supplementing their fitness programs for employees with company-wide cardiopulmonary resuscitation training courses.

This would ensure better emergency care during the first critical minutes in case of a heart attack. If CPR is started within one minute, the chance of recovery is 98 percent.

In many areas, the American Heart Association or the American Red Cross

will put on easy-to-learn CPR courses. Trained employees could help protect an organization's most valuable assets, the lives of other employees.

BYRON O. HESTEVOLD
Ann Arbor, Mich.

What Carter is doing

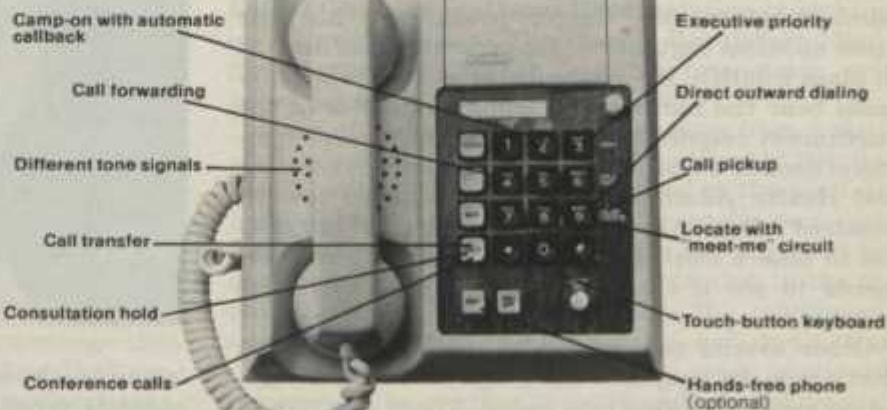
I am a middle-income sales representative for a distributor of bakery equipment and ingredients. I work on commission only.

Whatever President Carter is doing, it must be wrong. Bakery equipment manufacturers are increasing their prices. They blame cost of metal, labor, and freight. Items that are imported are up due to the deflated dollar.

I am 54 years old, trying to build a retirement fund by investing in a mutual fund. My fund has dropped from \$8.70 a share to \$6.98 a share.

I am paying 30 percent to 35 percent federal taxes. If President Carter and legislators continue to support the nonproductive people, the struggling middle class will join the nonproductive and learn how they survive with help of our government agencies.

ROY L. LOHAN
Cincinnati, Ohio



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Why Regulation Is Bound to Get Worse

FOR THE PAST year or so, a little current of optimism has been flowing through the American business community. There has been reason to believe—or at least there has seemed to be reason to believe—that perhaps the worst convulsions of federal regulation were behind us. Things were just bound to be better.

Forgive me my pessimism. I hope I am wrong. My own gloomy conclusion is that things are bound to get worse. The whole business of federal control has become a growth industry. Within the agencies of government, thousands of persons are now engaged in the interminable process of drafting, publishing, adopting, enforcing, amending, rewriting, and further revising regulations. Within the private sector, other thousands of persons have found gainful employment in reporting, interpreting, resisting, or complying with these same regulations. The bureaucracy, in this regard, takes on the character of a breeder reactor that produces more fuel than it consumes.

Perhaps it was President Carter's oratory that set the current of optimism in motion. Early in his administration, Mr. Carter proclaimed his war upon needless regulation. He ordered rules drafted in plain English. He demanded that every new proposal bear the name and telephone number of the bureaucrat responsible. He instituted some desperately needed reforms at the Occupational Safety and Health Administration. He abolished several hundred advisory committees. He directed his cabinet to take a fresh look at their reporting requirements to see if the paperwork burden might be reduced.

Other events contributed to the hopeful notion that a new day might be dawning. The word deregulation suddenly came into vogue. There was talk of deregulating natural gas, of deregulating the airlines. On Capitol Hill, resistance appeared to be stiffening to further expansion of the federal role. The House rejected the administration's Office of Consumer Representation. Some modest tax relief for business still seems to be in sight.

THERE IS LESS here than meets the eye. A few weeks ago, the Institute for Contemporary Studies, in cooperation with Northwestern University's Graduate School of Management, brought forth a book of essays under the forthright title of "Regulating Business." The 11 contributors are not precisely of one mind, but they are generally agreed on this much: The talk of deregulation is mostly talk. "Significant decontrol," says the institute's executive director, "has not occurred and is not in prospect."

In an introduction to the volume, Dean Donald P.

Jacobs makes the same point. "Anyone not familiar with the facts, but exposed to the rhetoric of politicians and regulatory officials, the media, or studies produced by some academics, might well conclude that the United States is moving toward a dramatic reduction of its massive regulatory apparatus. The reality is quite different. While deregulation may be taking place on a modest scale in a few areas, new regulations and regulatory agencies are coming into being."

Two profound changes have taken place. Federal controls have moved from the specific to the general, and we have gone from economic regulation to social regulation. The implications of these shifts have not been wholly grasped.

A tendency persists to think of government regu-



lation in the old patterns. We began with specific controls directed at specific industries. The Interstate Commerce Commission was limited in its jurisdiction to land-based carriers; the Maritime Commission to the high seas, and the Civil Aeronautics Board to the wild blue yonder. The Federal Power Commission looked after utilities, the Federal Communications Commission had radio and television for its domain, and various agencies of the Department of Agriculture laid down rules for the marketing of crops. In every case, the aim was economic; controls were manifested through certificates, licenses, and permits.

OLD-LINE economic regulators are still in business, of course, but new agencies with new purposes have achieved a larger importance. OSHA offers one example. The Consumer Product Safety Commission provides another. The Equal Employment Opportunities Commission, the Environmen-

tal Protection Agency, and the proliferating bureaus of the Department of Health, Education, and Welfare now exert a pervasive influence upon business decisions. The writs of these agencies run to industries everywhere, and the regulations are intended to achieve largely social aims—the employment of more minorities, for example, or the improvement of air and water.

The trend is exemplified in the Federal Trade Commission's pending proposal to limit or forbid certain television commercials aimed at children. The proposal is based upon a massive staff report that develops this remarkable theory—that because many parents are too weak or spineless to control their own children's television watching, or to say no when a child nags his mother for a sugary cereal, the advertising of sugared products is unfair and deceptive, and should be banned.

A synopsis of the FTC staff report makes these points: Television advertisers of food to children are caught in a competitive "sugar derby," in which no single company can afford to be "out-sugared" lest it lose its market position. This sugar derby, according to many experts, "undermines parents' ability to assure sound nutrition for their children by leading children to demand sugared products in preference to more nutritious and safer alternatives, exacerbates parent-child conflicts, and negates what little nutrition education takes place in the schools."

The synopsis goes on to quote the testimony of a clinical psychologist who says that parents do not intervene to protect their children from televised advertising "because of intense feelings of helplessness" and because parents are afraid of enforcing rules that they fear "might help to make their children social outcasts or social isolates."

Now it is a novel idea—novel to some of us, in any event—that the awesome powers of the federal government, through the rule-making authority, should be concerned with relieving parent-child conflicts. A federal responsibility for the prevention of tooth decay never entered the minds of the authors of the Commerce Clause. But "we have to draw lines," says FTC Chairman Michael Pertschuk. "The only alternative is to acknowledge that we are powerless to cope with a problem that parents, teachers, nutritionists, doctors, pediatricians, dentists, the commissioner of food and drugs, and now the surgeon general tell us promotes serious social and medical disorder."

Mr. Pertschuk's view of the federal role is widely shared. In this view, government is the shepherd and the people are the sheep. Shepherds are loving, and tender, and solicitous, but they are also firm. Shepherds know best what is good for their sheep. If the sheep will not buckle up in their automobiles, they must be protected by air bags. If the sheep smoke too many cigarettes, or eat too much sugar, or take too many pills, the coercive powers of government must be brought to bear.

This benevolent attitude is not likely to diminish. The well-intentioned ambition of the reformers and reshapers is much more likely to expand into new fields. Over the past two years the number of employees in federal regulatory agencies has increased

more than four times the rate of increase in federal employment as a whole. We now have 215,000 persons working in the 30 largest regulatory outfits.

A PROFESSOR of economics at Yale, Paul W. MacAvoy, has undertaken to measure the effects of these trends upon American industry. Direct price controls, in such fields as transportation and communications, now apply to about ten percent of the gross national product. The newer controls inherent in health and safety regulation, Prof. MacAvoy finds, "cover another 20 percent of industry so significantly that for all intents and purposes that sector is also regulated." In other words, he concludes, "the control sector of the American economy has probably grown from something like seven percent to close to 30 percent in the past decade."

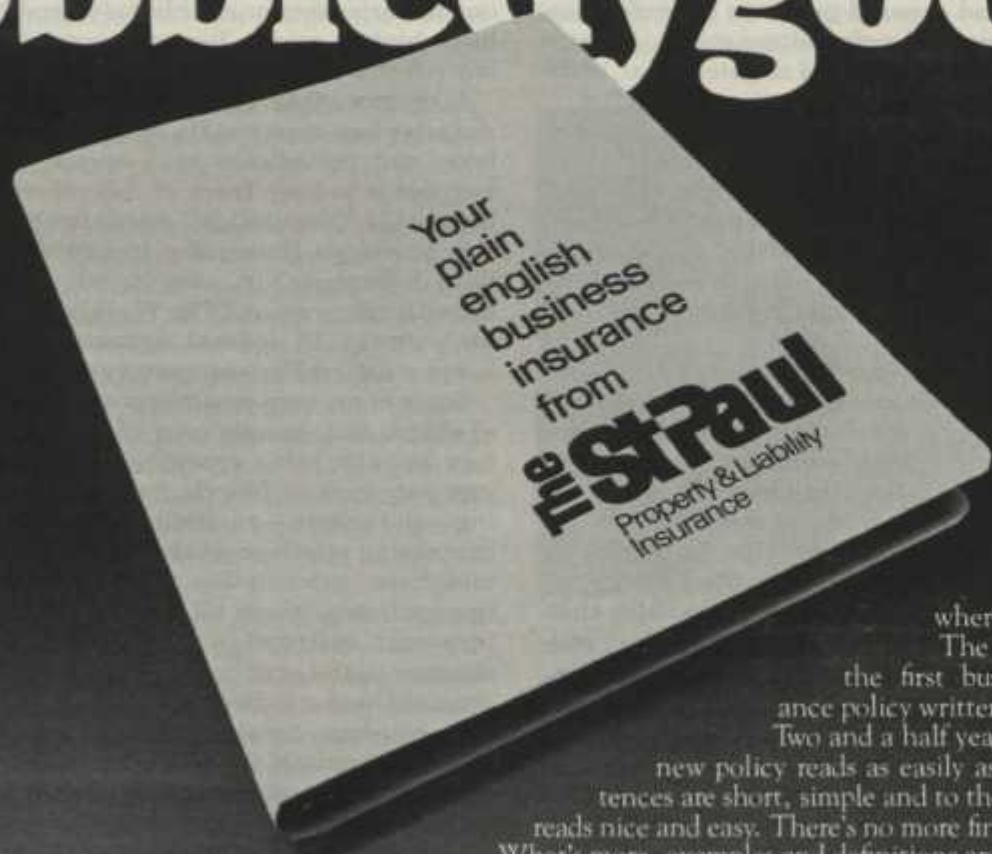
The various controls, in his view, "have substantially increased prices in and of themselves." But there apparently are no commensurate benefits resulting from this activity. Indeed, Prof. MacAvoy writes, the effects are negative because of the impact of the regulations upon economic growth. Prof. MacAvoy observes that our rivers are not significantly cleaner, nor our air significantly purer, nor our factories demonstrably safer and healthier. We have higher prices, less managerial freedom, and more forms to fill out.

Like any other growth industry, the regulatory industry has spawned its own service industries. At least two periodicals have sprung up whose sole purpose is to keep track of federal regulations. The bimonthly "Regulation" was launched last year by the American Enterprise Institute; publisher William J. Baroody, Jr., says its circulation is picking up with every issue. "The Weekly Regulatory Monitor" covers 18 federal agencies intensively and keeps a general eye on many others.

Some of my own pessimism may stem from a casual glance at a sample copy of "The Weekly Regulatory Monitor" that recently arrived in the mail. In just one week in March, federal agencies were acting—at random—on sliding glass doors, pesticides containing ethylene oxide, lead pollution in the atmosphere, subscription television, the labeling of tranquilizers, crude oil in Alaska, ear drops, zinc imports, railroad derailments, and proposed changes in the grading of cattle and sheep. Our government was concerned with health planning, surface mining, aviation fuel, checking accounts, medicated animal feeds, stock options, unvented gas space heaters, quadraphonic FM radios, the inflation of automobile tires, and a proposed Treasury rule "requiring labels on alcoholic beverage containers warning pregnant women about possible fetal hazards resulting from drinking."

IN THREE AREAS alone—health care, education, and the prevention of discrimination—the agencies of our federal government have new worlds to conquer. The allocation of energy resources has barely been touched. My own crystal ball is often clouded and unreliable, but it yields a clear view—and a dismal one—of what lies ahead in the field of regulation. As Al Jolson used to say, you ain't seen nothin' yet. □

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Limit the Number of Congressional Terms?

SEN. JOHN C. DANFORTH (R.-Mo.) has introduced in Congress a proposed constitutional amendment that would limit each senator and representative to a total of 12 years' service.

"One of the problems with Congress is that its members almost never seem to know when to step aside," Sen. Danforth said in submitting his proposal. "Congressional service is exciting and challenging, so the temptation is to stay in office forever."

"Our Founding Fathers never intended it to be this way. They had the idea that congressmen would be private citizens on leave to their government. A congressman who serves for life really is not of the people."

"But many congressmen spend the better part of their adult life here in Washington."

"The sad results are obvious. First, Congress has grown more distant from

the American people. Second, the growth and the cost of government have skyrocketed as congressmen say anything, do anything, and spend anything to get themselves reelected."

Several other senators are supporting the concept of limited terms. Sen. Danforth's plan calls for allowing senators to serve no more than two six-year terms, and representatives, no more than six two-year terms.

Such an arrangement, he says, would "bring in new people, generate fresh ideas, and discourage stagnation; provide a means of restraining the power that can accumulate in the hands of lifetime legislators; and ensure that the advantages of incumbency will not go on forever."

The proposed amendment would require approval of a two-thirds majority of the Senate and House of Representatives and then of three quarters of

the states before it could become part of the Constitution. Sen. Danforth concedes that "chances for early passage are very slim." But, he says, Senate hearings scheduled on the proposal will stimulate public discussion of the idea.

Critics of the plan assert that the proper number of terms a senator or representative serves is a decision for the voters of each state and congressional district.

Restricting congressional terms could deprive a state or district of the services of a highly effective legislator whose continuance in office could further the well-being of his or her constituents, the critics say.

Placing limits on the legislators' terms would be a step backward, the opposition believes.

Should congressional service be limited to 12 years? What do you think?

PLEASE CLIP THIS FORM FOR YOUR REPLY

Kenneth W. Medley, Editor
Nation's Business
1615 H Street N. W.
Washington, D. C. 20062

Should congressional service be limited to 12 years?

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Extension on ERA—the Long and Short of It

THE EQUAL RIGHTS AMENDMENT is in a race with time. To be ratified, it must have the approval of 38 state legislatures by next March.

ERA got off to a jackrabbit start that carried it through 30 legislatures in the first year after its passage in March, 1972. But now it appears that the amendment, like the proverbial hare, may not show enough staying power to win the race.

By the end of 1975, only four legislatures had added their approval, and since then, only one has. ERA still needs three more favorable actions by legislatures. And three legislatures have rescinded previous approvals—action which ERA supporters say is illegal.

Some proponents of the amendment want Congress to reconsider the original seven-year deadline and allow another seven years for passage. Rep. Elizabeth Holtzman (D-N.Y.) has offered a resolution, currently in subcommittee, calling for such a deadline extension.

ERA supporters are faced with a question of strategy.

Do they fight for the extension in hopes it will enable them to win eventual passage? Or do they concentrate their efforts in the eight remaining states considering ratification, hoping to win three before the March deadline?

Some ERA proponents oppose an extension. Virtually all foes of the amendment, as might be expected, also oppose the extension, pointing out that no other constitutional amendment has taken longer than four years to pass.

The "Sound Off to the Editor" question in the April issue of *NATION'S BUSINESS* asked: "Should the deadline for ratification of ERA be extended?"

Overwhelmingly, readers responding vote no.

"Football games—and constitutional amendments—should not have fifth quarters unless it is agreed upon by both sides at the beginning," says Paul J. Mitchell, public affairs director for Carl Karcher Enterprises, Inc., Anaheim, Calif.



Jackson B. Dismukes, Jr., assistant vice president and branch manager, First Alabama Bank of Montgomery, says that "ample time has been allotted to the issue."



Vicki V. Van Pelt, sales and marketing vice president, Wellwest Corp., Los Angeles, favors a deadline extension. She says: "Time is needed to educate a few legislators."



Ellsworth Vines, president, Baltimore Brushes, Inc., Brockton, Mass., says that if the amendment is ratified, "it should be done according to the law as is."

Joseph C. Poulter, president of Poulter Implement Co., Inc., Belvidere, Ill., says: "The rules should not be changed just because the results are not as we would like to see them."

Clinton V. Johnson, president of The Johnson Gage Co., Bloomfield, Conn., says: "Absolutely not. Established rules can be amended only by mutual and voluntary consent."

Alberta Bailey, assistant to the president of Pioneer Federal Savings & Loan Association, Baker, Oregon, says: "Emphatically not. As a working woman, my feeling is that present laws should be enforced and that ERA is not needed. All ERA can do is cause confusion."

F. Karl Deines, president and general manager of Deines Lumber Co., Loveland, Colo., asks: "If the situation were reversed, do you suppose for one minute that the pro-ERA group would consider such a ridiculous concession?"

Readers voting yes on a deadline extension favor passage of the amendment.

"ERA should have been passed long ago, and the fact that it hasn't is a historical sore eye for our granddaughters," says Greg Mulcahy, owner and president of Twin City Forms, Inc., Prairie Du Sac, Wis. "What will they think of us? Without complete equality, we are a doomed nation."

Helen Mossman, executive vice president of the Woodward Chamber of Commerce, Woodward, Okla., says: "The Equal Rights Amendment will not go away even if it is not ratified by 1979. Stalling, delaying, filibustering, bottling it up in committee—all these tactics are useless in the final outcome. ERA is here to stay."

At the same time, proponents of ERA are among those voting no to a deadline extension.

Ken Moses, director of the Pickwick Puppet Theatre, North Bergen, N.J., says: "I am strongly in favor of ERA, but there has been plenty of time for the ratification to go through, and if it can't be done now, it should be reworked and sent through again."

Janelle Fallan, public affairs manager of the Montana Chamber of Commerce, says: "ERA is here to stay."

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merce, Helena, says: "I worked hard to get ERA through the Montana legislature, but I don't believe in changing the rules in the middle of the game. If ERA doesn't make it in 1979, I fully believe it will be back."

James T. Pace, president of Citizens Bank and Trust Co., Glasgow, Ky., takes no position for or against ERA, but he is against extension. "If Congress wants to extend, let's start over and let all states vote again to ratify or not to ratify," he says.

Richard Schoch, senior vice president and associate creative director of Compton Advertising, Inc., New York, votes against extension but says: "If the deadline is extended, then all original ratifiers should have the right to rescind."

However, Judy H. Schuh, office manager of Alliance Air Conditioning, Inc., San Diego, says: "Every person in this country should have equal rights and equally shoulder obligations. No matter what length of time it takes, ratification must be made."

Wesley Kent III, assistant vice president and trust officer of the Pan American Bank of Sarasota, Sarasota, Fla., offers a historical viewpoint: "It took this country more than 125 years

to grant women the right to vote—why should we expect a mere seven years to turn the tide of women's rights?"

On the other side of the argument is Mrs. Clyde H. Dennis, president of Good News Publishers, Westchester, Ill. Not only does she say there should be no extension, but she charges that "the methods used by the pros have been despicable and the fact that the President has used tax money to propagate the ERA has antagonized many."

Herbert L. McCawley, president and general manager of Kobbe-McCawley Corp., Melbourne, Fla., also opposes an extended deadline and says: "The vocal ERA proponents are even poorer losers when they attempt to boycott states voting no. In all other countries, or if the situation were reversed, this would be called blackmail."

But Joan N. Baer, vice president and director of research for Post-Keyes-Gardner, Inc., Chicago, says: "We should have whatever time is needed to bring justice to 51 percent of the nation's population."

Kathy Bethel, vice president of B & B Mobile Home Service, Inc., Grafton, Va., sees things differently. "In asking for an exception on this," she

says, "women are asking for the very thing they are supposed to be opposed to—unequal rights—for themselves."

"Law is law," writes William R. Van Deburg, president of Wedco Manufacturing, Inc., Jackson, Wyo. "If it is not possible for states to rescind their ratification, then it should not be legal to extend the deadline."

"Adam's Rib—Satan's Fib—Women's Lib" is the terse comment from T. V. Witherrite, a minister in Weaver-ville, N. C., who opposes extending the deadline.

Even though she supports passage of ERA, Joyce Condon, a public affairs staffer for Owens-Illinois, Toledo, says that "the time is now—additional time may only weaken the effort." She would support a "strong push into those states considered 'possibles' for ratification."

Finally, these words of advice from James Walley, president of Brown Cleaning Service, Rochester, Ind.: "If we are really a nation that believes what we say, 'In God We Trust,' we had better believe what God says. He did not create women equal with men. He created women special. Let's make God happy and let well enough alone." □



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Inflation: Why Prospects Are Gloomy

By Robert T. Gray

Business people fear
the administration has not yet grasped
the extent to which government actions
are inflationary

THE FIRST SPEECH that Robert S. Strauss gave in his new role as President Carter's special counselor on inflation was delivered to a high-powered business audience.

Hundreds of executives of top industrial corporations and financial institutions gathered in New York to hear Mr. Strauss, probably the most politically knowledgeable individual in the President's inner circle, cover the full spectrum of inflation issues in his usual witty and eloquent manner.

He was interrupted by applause only once during a fairly lengthy talk that bristled with declarations of purpose and exhortations for restraint. The response was to Mr. Strauss's statement that "government spending continues

to increase, and it is an outrage." Otherwise, the speech did little to allay the growing worry of Mr. Strauss's listeners and of the business community at large over the resurgence of inflation as the nation's most serious economic problem.

The reaction to Mr. Strauss's appearance epitomized, in a sense, the current relationship between the Carter administration and business on the inflation issue.

White House goes awry

While the administration has announced a plan containing a series of measures designed to dampen inflation, business sees inconsistencies between words and actions in some areas

and a failure to recognize the root cause of problems in other areas.

A NATION'S BUSINESS survey of business people shows widespread concern that:

- Despite its promises of economy and restraint, the administration has not yet grasped the extent to which increasing spending deficits, regulatory overkill, and such actions as a sharp boost in the minimum wage are major causes of inflation.

- While pledging to avoid wage and price controls except in a national emergency, the White House still sees a government role in influencing marketplace decisions.

- Although productivity continues to be disappointing, labor unions indi-

cate they will be making record demands in contract talks due over the next 18 months in the trucking, railroad, construction, auto, and retail food industries and the U.S. Postal Service. The government-encouraged, 39-percent increase over three years won by the coal miners is expected to figure heavily in the talks between unions and management in other industries. Productivity as measured by the Labor Department increased 2.2 percent from 1976 to 1977. Hourly wages went up 8.9 percent in the same period.

- The long congressional stalemate over a national energy policy has increased U.S. reliance on imported oil, which in turn has produced a record deficit in the American balance of payments and sent the dollar tumbling in overseas markets.

Double-digit again?

As a result of these and other factors, some financial experts fear that the rate of inflation may be back up into two digits by the end of this year.

The consumer price index rose 6.8 percent from December, 1976, to December, 1977, compared with a rise of 4.8 percent the previous year. Though the administration has forecast that inflation will be held within a range of 6.75 to seven percent in 1978, the CPI soared at an annual rate of 9.3 percent in the year's first quarter, and the wholesale finished-goods price index rose 1.3 percent in April, the largest one-month jump in that index in three and a half years.

Tilford Gaines, senior vice president and economist of Manufacturers Hanover Trust Co., of New York, told *NATION'S BUSINESS* he expects inflation to be in the neighborhood of ten percent, at least, by the end of the year.

"Unfortunately," he said, "it is far easier to spot trends indicating that inflation will worsen than trends that show any sign of abatement."

Mr. Gaines said he anticipates that increases in food and energy costs will lead the rise in living costs, while higher prices for imported goods as a result of the devalued dollar abroad will also be a factor.

He pointed to government fiscal policy as a prime offender in the new round of inflation.

"I find it hard to believe," he said, "that here we are into the fourth year of recovery from the recession and we are running a federal deficit of some \$55 billion this year and plan to run it up to \$60 billion in the new fiscal year."

Even if inflation were kept at something like last year's rate, the rise in costs would have a serious impact on

to maintain a low standard of living, \$17,106 to maintain a middle standard, and \$25,202 for a high standard. At 6.5 percent inflation, those families would need 65 percent more income just to hold on to their present standards of living in 1985. At ten percent inflation, they would need more than two times as much income—\$36,607 a year for a middle-level standard.



Robert Strauss, U.S. special trade representative who has taken on the added assignment of inflation counselor to the President, has been promising that government will brake spending to ease the price spiral.

the economy, and a return to double-digit inflation would have staggering economic consequences.

Figures' sad story

Figures tell the story:

- At 6.5 percent inflation, the government-set poverty level for a non-farm family of four, now \$6,200 a year, would be \$10,260 in 1985. At ten percent inflation, the poverty level would be \$13,290.

- At 6.5 percent inflation, a dollar worth 100 cents in 1970 would be worth 39 cents in 1985. At ten percent inflation, it would be worth 25 cents.

- The average U.S. urban family of four, the Labor Department says, now must have an income of \$10,481 a year

- At the present rate of real and inflationary growth in the cost of government, public spending at all levels will be \$1.75 trillion by 1995, about 3½ times the 1975 level, and the average tax burden per family will be \$16,085, which can only be met through higher—and highly inflationary—wage payments.

- Citibank, the nation's largest bank, points out that, under proposed income-tax changes and Social Security tax increases already enacted, "a hardworking young family with a \$17,700 income this year and ambitions to raise this by ten percent a year through 1987—a 140 percent rise—can look forward in that decade [if the family realizes its income ambitions] to a



Tilford Gaines, economist for Manufacturers Hanover Trust Co., is concerned about inflationary trends.

247 percent increase in its federal income tax bill and a 184 percent boost in the Social Security bite.

"The family's net annual improvement in real dollars, if inflation is in a six percent range during the period, will be a discouraging three percent a year."

What government can do

The current national dialogue over inflation is keyed to the basic questions of what causes inflation and how it can be curbed. There is a sharp difference of opinion on the issue between government and the private sector.

In announcing the administration's anti-inflation plan, President Carter pledged to veto any congressional spending bills that would raise the fiscal 1979 deficit higher than the \$60.6 billion he has projected, to seek ways to ease the inflationary impact of government regulations, and to hold federal white-collar pay raises to 5.5 percent.

At the same time, however, the President declared: "It is a myth that the government itself can stop inflation. Success or failure in this overall

effort will largely be determined by the actions of the private sector."

What does the private sector think?

Need for a free market

Raymond N. Carlen, chairman and chief executive officer of Joseph T. Ryerson & Son, Inc., of Chicago, and senior vice president of its parent company, Inland Steel Co., feels that "inflation is immoral" and results primarily from government interference in the market enterprise system.

Mr. Carlen, now serving as executive committee chairman of the Steel Service Center Institute, a trade organization, explains:

"From both a business and a human standpoint, inflation hurts more Americans, destroys more of our values, and is potentially more damaging to our social fabric than any other problem we face, including unemployment."

His formula for corrective action: "We have to deregulate prices, pare unproductive regulations and unfair trade practices, and stimulate investment. We have to improve productivity, stop meddling with minimum wages, and start letting the free market function."

Fly now, pay later

Lawrence K. Roos, president of the Federal Reserve Bank of St. Louis, traces national economic problems to what he terms a "fly now, pay later" philosophy in government.

"In the private sector, there is a clear understanding that satisfaction of current desires requires some future sacrifice," Mr. Roos says. "Individuals and business cannot afford to ignore the future consequences of their actions because they personally will be held accountable. The same is true of government, in principle. There is one major difference, however—the government can print money and thereby appear to avoid the accumulated debt. The cost is avoided only for a time, however."

"What is really happening is that we are taking out an ever-larger mortgage on the future standard of living of our nation."

The economics division of New York's Bankers Trust Co. says:

"What is sorely needed at this juncture is to cut back on government spending to make room for the proposed tax cuts. Deliberately increasing the size of the federal deficit in an inflationary climate, when the economy is expanding above its long-term

rate of growth, is not only irresponsible, but there is a risk it may boomerang."

Manown Kisor, senior vice president of Detroitbank Corp., says the overall inflation rate "must be held between six and seven percent." That goal can be achieved, he believes, by steps that include holding the monetary growth rate to an average of six percent.

Mr. Kisor says the monetary-growth range during a year should be between four and eight percent. In 1977, increases ranged from 4.2 to 9.3 percent for an average of 7.2 percent.

Capsule viewpoints

A sampling of other, private-sector viewpoints:

D. M. Doyle, chairman of Delmark, Inc., Minneapolis—"Curb government spending; reduce both business and individual taxation; cut back on government regulation; increase our domestic energy output."

Sheldon Strauss, treasurer of White Motor Credit Corp., Beachwood, Ohio—"Slow the growth of the money supply and reduce the budget deficit."

Carol Ebner, American Income Life Insurance Co. manager in Silver Spring, Md.—"The only wage and price curb on business should be profitability."

David R. Talbott, president of Talbott Oil Co., Ballinger, Texas—"Get government out of business. Small business cannot stand any more bungling government interference."

E. Bretney Smith, Jr., president of Swannanoa Laundry, Inc., Asheville, N. C.—"Place a five-year moratorium on minimum wage increases, which result in automatic inflation."

Leonard R. Schumann, president of Bowers, Schumann & Welch, Washington, N. J.—"Balance the budget, reduce bureaucracy, and cut back on many federal welfare programs."

Julian H. Brown, vice president of The Commercial Bank of Ozark, Ozark, Ala.—"There is not one man in Washington today who has the guts to say that we have turned our economic system into a nightmare and that the remedy is to bring back total free enterprise and let the chips fall where they may."

Fear of controls

The administration's approach to wages and prices continues to be a source of confusion and even conflict, as far as the business community is concerned.

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Strauss have repeatedly declared that the administration is flatly opposed to mandatory wage and price controls except in the event of a national emergency.

At the same time, both continue to see a need for some form of government role in a voluntary restraint program. The President has called on labor and management to keep wage and price increases below the average of the past two years. Mr. Strauss told his business audience in New York that he hopes to "sit down with the private parties and discuss their objectives well in advance of any specific wage or price decision."

Some business analysts fear that approach could be a forerunner to a more formal policy of controls.

Unhappy memories

Manufacturers Hanover economist Gaines says: "An important concern among businessmen, labor leaders, and probably some consumers is the fear that, out of frustration in its failure to control inflation, the administration might be driven to one form or another of an incomes policy."

"Incomes policy is a euphemism for pay and price controls, which may range from gentle admonition to the full panoply of controls of the sort the country suffered under from 1971 to 1974."

Richard D. Hill, chairman of the First National Boston Corp., believes that "price and wage controls—even jawboning—merely treat the symptoms, but fail to cure the disease. The disease is caused by an insidious narcotic which raises our expectations of good things for all beyond our ability to manufacture or pay for them. As the disease spreads in classic fashion, wealth flows from the private to the public sector, and employment tends to do likewise."

"Perhaps this will produce the desired benefits, but we will have to undergo some drastic political changes to a more socialistic and centralized government, which Americans are not yet ready to accept."

Impact of regulation

In another area, business remains unconvinced that the administration is really facing up to the way current regulatory policy feeds inflation.

The inflationary impact of government regulation has been thoroughly documented.

A recent study by Dr. Murray L. Weidenbaum for the Joint Economic

Committee of Congress showed that, for example, regulations have added \$666 to the price of a new automobile and between \$1,500 and \$2,500 to the price of a new home.

Dr. Weidenbaum, director of the Center for the Study of American Business at Washington University, St. Louis, estimated that regulation-added costs to home buyers totaled \$4 billion last year alone.

Sen. Lloyd Bentsen (D.-Texas), vice chairman of the committee, commented that the study "confirms that government regulation has a far more pervasive impact on our economy and on consumers than is generally realized. The impact affects everyone in the form of either higher taxes to pay the regulators or higher prices charged by business to comply with their regulations, or both."

Sen. Bentsen is presiding over committee hearings on the economic impact of excessive government regulation. The hearings are being held at the same time Congress is considering the fiscal 1979 budget, which calls for sharp increases in spending by federal regulatory agencies.

Citing the impact of government controls on the national economy, Ford Motor Co. President Lee A. Iacocca recently recalled that, just last fall, the multibillion-dollar auto industry "was faced with the very real prospect of closing down or not starting its 1978 production because we couldn't meet government emissions standards." An 11th-hour congressional reprieve avoided the shutdown. Mr. Iacocca commented: "That's gut poker with the other guy holding all the aces."

Ray of light at the Fed

Are there any rays of light in the gloomy inflation picture?

Business people see one hopeful development in the performance thus far of businessman G. William Miller as chairman of the Federal Reserve Board.

Business was disappointed over the Carter administration's decision to oust longtime Chairman Arthur Burns, who had been viewed as the embodiment of a policy of restraint in an otherwise undisciplined Washington fiscal scene.

While Mr. Miller had compiled an outstanding record as chairman of Textron, Inc., his appointment to succeed Mr. Burns was viewed as another element of uncertainty in an economic picture already suffering from too much uncertainty.

George W. McKinney, Jr., senior vice president of Irving Trust Co., of New York, told a meeting of state bank supervisors recently that Federal Reserve policy in the past few years "has hit the happy medium of being about as restrictive as was possible without tipping the economy into recession. . . . Initial indications are that newly installed Fed Chairman Miller will continue this tradition. It was certainly encouraging to hear his statements that the Federal Reserve will not follow doctrinaire monetarist policy, which has frequently been counterproductive and has gotten the Fed in hot water from time to time."

Business has also welcomed Mr. Miller's statement that, in view of the inflationary threat, "the Federal Reserve has no choice but to be a force of moderation."

Recent moves to tighten the money supply indicate that the Federal Reserve is already embarked on that course.

Whatever policies are pursued, however, curbing inflation will be neither a pleasant nor a painless pursuit.

Day of reckoning

Economists of Chicago's Harris Trust and Savings Bank offer this perspective:

"The unfortunate choice facing policymakers is between [an economic] slowdown of moderate proportions this year and next or a slowdown of major consequence at some later date."

"In this sense, recent efforts to contain monetary growth should be supported as the only effective method of reducing inflationary pressures."

"In spite of some indication that the first effective step toward curbing inflation may be under way, consumers cannot expect any near-term relief from rising prices."

"Even if monetary growth were to remain moderate, past experience shows that it could take as long as two years before the first signs of slower inflation would appear. During that period, sluggish business activity would have to be tolerated as the cost of reversing the inflation trend."

"Unfortunately, an easy, painless solution to the inflation problem does not exist. The sooner policymakers accept this hard truth, the sooner consumers can look forward to some relief from the destructive inflation which plagues the U. S. economy." □



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Factories' Use of Gas Drops

The use of natural gas as an energy source in manufacturing is continuing to decline, judging by a Census Bureau report.

Periodic shortages and curtailments have caused natural gas to slip from a peak of 56 percent of all energy consumed by U. S. manufacturing plants in 1971 to 54 percent in 1974 and 49 percent in 1976, the last full year for which figures are available.

Major gainers were fuel oil and purchased electrical energy.

Fuel oil accounted for 16 percent of energy used in plants in 1976 compared to 14 percent two years earlier. Purchased electricity increased by nearly two percent during the same period—from 15.5 percent in 1974 to 17.2 percent in 1976. Coal use was static at ten percent in both 1974 and 1976.

Though manufacturers' total energy consumption increased only five percent in 1976 from a year earlier, the cost of fuels and electrical energy jumped 19 percent to \$27.6 billion.

Foreign Affiliates' Sales Increase

Sales of foreign affiliates of U. S. firms increased 11 percent in 1976 to \$514.7 billion, the Commerce Department's Bureau of Economic Analysis says.

The increase in 1976, the last full year for which figures are available, compares to a six percent rise in 1975.

Top gainers were petroleum and manufacturing firms.

Sales by oil companies abroad rose 12 percent in 1976 to \$205.5 billion.

Companies in most crude-oil producing areas had sizable gains, reflecting increases in both price and production.

However, sales by Venezuelan affiliates decreased sharply due to nationalization of the petroleum industry there at the end of 1975.

Manufacturing affiliate sales increased 11 percent to \$212.8 billion. The largest gain was in transportation equipment, up 18 percent, and was concentrated in Western Europe, particularly West Germany.

The gain for manufacturers reflects improved economic conditions and successful introduction of new car models in several countries. Chemical firms had a 15 percent sales increase, generally in developed countries.

Foreign affiliates of U. S. firms plan to increase capital expenditures ten percent in 1978 to \$31.6 billion, the same percentage as 1977, and the bureau says this reflects expectations of continued moderate growth abroad.

Long-Distance Heating Promises Energy Savings

Long-distance heating for high-density residential and commercial complexes may be the most energy-efficient answer in some regions of the country, says a new study by the Oak Ridge National Laboratory in Tennessee.

The concept calls for a grid system to supply heat generated by a power plant in the form of hot water or steam through a long-distance transmission line.

"The thermal energy grid concept is the combination and extension of two energy-efficient ideas: district heating, in which heat is supplied from a central source to a group of buildings; and the cogeneration of both electricity and steam from coal or nuclear fuel," the study says.

Oak Ridge engineer Michael Olszewski says the economics of potential application are more favorable in areas of high heat load density and high fuel costs, such as multifamily dwelling complexes. However, the study says, although industry has comparatively lower fuel costs, it would provide a relatively constant base load for the thermal grid heat system.

The study points out that hot water transmission lines appear more practical for longer distances, while steam lines could be used for ten miles or less.

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commercial users, the thermal grid system would be more economical when installed in a new building complex, rather than retrofitting an existing oil or electrical system. Generally, the thermal grid system is uneconomical for single-family residences. •

1985 Autos Could Lose Up to 1,500 Pounds

"Tomorrow's automobiles probably won't look much different than today's, but they will perform better in terms of protecting the driver and passengers," says Dr. John W. Melvin, director of the biomechanics laboratory at the University of Michigan's Highway Safety Research Institute.

The body of tomorrow's auto will absorb energy before it gets to the car's occupants. In today's autos, much of the bodywork is designed for styling and aerodynamics, not for crash protection.

While safety innovations will become a more integral part of future cars, they will not jeopardize development of smaller-sized autos that will get better gas mileage.

The average 1985 model automobile could be up to 1,500 pounds lighter than its 1975 counterpart, according to industry reports. Weight removal will be a key factor in meeting a government requirement of a sales-weighted fleet average of 27.5 miles per gallon by 1985.

"It's a matter of making effective use of components that have to be put on the car anyway," Dr. Melvin says. •

Key to Unlocking the Tar Sands?

A real bonanza waits for the firm that can economically extract oil locked in the tar sands of Canada, Venezuela, and the western United States. Guardian Chemical Corp., of Hauppauge, N. Y., claims to have a system that will be better than those now being tried.

"Our new method is easier and cheaper," says Guardian President Dr. Alfred R. Globus.

"It is easier because we use only a small amount of hot water in our process in contrast to other methods now in use, which require vast quantities of hot water or steam."

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Typical applications in the apparel industry involve replacing snaps, hooks-and-eyes and buttons. VELCRO tapes are also used on uniforms of all kinds: they function so easily that they add a safety factor where quick action and freedom from jamming are essential.

The transportation industry has found VELCRO products ideal for securing carpets, headliners and access panels in cars, trucks, buses, RV's and aircraft. (Custom-engineered VELCRO fasteners woven of stainless steel have been developed for special applications in aerospace and areas where high heat conditions exist.)

Makers of leather goods and luggage use VELCRO closures for their smooth fit and sleek line and for strength, adjustability and light weight.

Makers of sporting goods have found that VELCRO fasteners have toughness, flexibility, suppleness and great tenacity.



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Dikor, which cuts down on the amount of hot water needed, Dr. Globus says.

The chemical, water, and tar sand are mixed in a drum, which is slowly rotated for 20 minutes. This process loosens the tar from the sand, and the tar floats on top of the water. The sand is then usable as landfill where the tar sand was mined.

According to Dr. Globus, the process results in a recovery rate of better than 94 percent as compared to 85-88 percent recovery by the presently used hot water and steam methods.

The Guardian process is cheaper, Dr. Globus says, not only because less water is used—and because water is cycled back through the process—but also because less time is required to separate the oil from the sand than in other systems.

Dr. Globus claims oil by this method can be produced at about half the cost of world oil.

Oil from the Athabasca tar sands in Canada can be produced for between \$6 and \$7.50 per barrel from a 100,000-barrels-a-day plant, he says, while oil from tar sands in Venezuela would cost close to \$7 per barrel.

In addition to the foreign tar sands, Guardian says, the method could be applied to deposits in the western United States, particularly in Utah where an estimated 25 billion barrels of oil are trapped in tar sands. •

Engineers Honor Alaska Pipeline

The Trans-Alaska Pipeline—designed, engineered, and built by Alyeska Pipeline Service Co.—has been awarded the Outstanding Civil Engineering Achievement Award of 1978 by the American Society of Civil Engineers.

An independent jury of three engineers and four engineering magazine editors made the selection. The jury made the choice based on the project that "demonstrates the greatest engineering skills and represents the greatest contribution to civil engineering progress and mankind." •

Sweet-Oil Scarcity Will Require Refinery Changes

U.S. and Caribbean refineries are being asked by the Department of Energy to increase their capabilities of refining high-sulfur crude oil 25 percent, because U.S. and foreign re-

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serves of more desirable low-sulfur crude—sweet crude, it's called—are being depleted at a faster rate than anticipated.

Only 42 percent of domestic oil reserves now are sweet crude, and an even smaller proportion of supplies from members of the Organization of Petroleum Exporting Countries—15 percent—are of that high-quality variety, an Energy Department report says.

Department officials point out that most of the newly discovered oil on Alaska's North Slope is high-sulfur crude. The oil, being shipped via tanker from Alaska to West Coast refineries, will present a problem for refineries not equipped to upgrade it.

Refining high-sulfur crude calls for sophisticated desulfurization processes and other techniques requiring heavy investment.

The Energy Department says special alloys will have to be used in new equipment to withstand corrosion, and equipment will have to be installed that will bring refineries into compliance with environmental rules. •

Telecommunications Growth Predicted

Two separate market surveys predict the telecommunications industry should enjoy reasonable economic growth, both domestically and internationally, over the next ten years.

A study of the domestic market done by International Resource Development, Inc., of New Canaan, Conn., pre-

dicts that sales of telecommunications services and equipment within the United States will approach \$60 billion this year and will be nearly \$88 billion in 1988.

The second study, surveying the international market for telecommunications equipment alone, was done by Arthur D. Little, Inc., of Cambridge, Mass. According to this analysis, the market for equipment should more than double by 1987, reaching \$65 billion in sales.

Nations of the third world will provide the best market for telecommunications equipment as developing regions expand their international and intercity trunk lines, the study says, adding that markets in developing countries will grow at a rate of almost ten percent annually.

Both studies recognize that the larger companies involved in supplying telecommunications equipment and services will continue to dominate the scene.

Arthur D. Little, Inc., estimates that in 1976, five major companies generated more than \$1 billion each in revenues from the marketing of telecommunications equipment worldwide. •

New Ways for Utilities to Get Rid of Sludge

The electric power industry is in a dilemma about what to do with its increasing but unwanted supply of sludge—a by-product most utilities accumulate from burning fossil fuels or

continued on page 66A

REPORT ON NATIONAL CHAMBER'S ANNUAL MEETING

Setting Challenges for Business

PHOTO: WAGG CHRISTIAN



PHOTO: JEN HUNTER



Senate Minority Leader Howard H. Baker, Jr., expressed concern in a major address to the 66th annual meeting of the Chamber of Commerce of the United States that the nation "might slip into socialism without ever intending to." He spoke to the delegates in historic Constitution Hall.

THE MEN AND WOMEN of American business comprise the only group in the country today with the motivation, will, and strength to lead the fight to halt erosion of the nation's heritage of freedom.

And business must accept that challenge.

Those were the fundamental conclusions that emerged from the 66th annual meeting of the Chamber of Commerce of the United States, the country's largest broad-based business organization.

More than 2,500 leaders of business and business organizations participated in the Washington meeting, along with major figures from the White House, Congress, academia, and the media. American business communities in nations throughout the world were also well-represented.

The theme of the 1978 meeting, "A New Agenda for Human Progress," provided a common ground for activi-

ties that included general sessions on broad policy issues and panel discussions on specific economic and legislative issues.

Seek solutions

In summing up the new-agenda concept, Dr. Richard L. Leshner, president of the National Chamber, said that "our role is not to ignore the problems, not to minimize them or simply to criticize.

"Our bigger role is to solve problems—constructively, efficiently, and humanely."

Public dissatisfaction with high taxes and inflation provides the basic conditions for change, he said, continuing:

"Where do we start?"

"We start by stating the goal that we seek: An economic, political, and social system based upon individual freedom, initiative, opportunity, and responsibility.

"To achieve that goal, we need sever-



Former Treasury Secretary William E. Simon was congratulated by delegates attending the annual meeting's Small Business Dinner after a hard-hitting speech in which he called for "a national commitment to tax reduction." Mr. Simon urged the men and women who own and operate small businesses to launch a national movement to lift "the crushing burden of taxation."

PHOTO: PAUL S. COMBIS

PHOTO: MAGGIE CASTELLONE



Labor-law legislation now pending in Congress was debated by Sen. Harrison A. Williams, Jr. (left), a principal sponsor of the measure, and Robert T. Thompson, a prominent labor lawyer who is a leader of the business fight against the bill.



Jay VanAndel, chairman of Amway Corp., U. S. A., became the new vice chairman of the National Chamber at the 1978 annual meeting. He is also chairman of the fast-growing political action organization for individuals, Citizen's Choice.



Dr. Arthur F. Burns (center) was honored by the National Chamber for his service to the nation as chairman of the Federal Reserve Board and in other high posts. William K. Eastham, who ended his term as National Chamber chairman at the 1978 meeting, congratulated Dr. Burns as Chamber President Richard Leshner applauded.



Ambassador Robert S. Strauss, U. S. special trade representative and newly appointed presidential counselor on inflation, warned a special session on global commerce that protectionist policies could bring retaliation against American exports that now total \$120 billion a year.

al things. One, we need legislative influence. Two, we need political influence. And three, we need a vision of the future, but one which is attainable."

First step achieved

The business community has achieved the first step, Dr. Leshner said, with the National Chamber's legislative action program. It is the most effective such program Washington has ever seen, he added, "thanks to all of you."

The next step, he said, is political action—helping to elect "a Congress that the country needs." That goal, Dr. Leshner commented, is the reason for the recent formation of the National Chamber Alliance for Politics, which will lend support to probusiness candidates.

The final step, calling for a vision of the future, "is the constructive alter-

native, the plan, the new agenda for America," he said.

"This step begins the business search for solutions that are economically sound, practical, and effective. When we have them, we're going to implement them. Together."

The need for business leadership in resolving national problems was also emphasized by Shearon Harris, newly installed board chairman of the National Chamber.

Leadership urged

Mr. Harris, who is chairman of Carolina Power & Light Co., Raleigh, N. C., said the nation was suffering from "the illusion that we can legislate our economic environment."

He added:

"But so long as we remain free, we have the power to correct our mistakes. . . . It will take strong leadership. And the business community is

the logical group to provide that leadership. We have a pragmatic working knowledge of economics that we must share with our bewildered countrymen."

William K. Eastham, president of S. C. Johnson & Son, Inc., of Racine, Wis., said a major political challenge facing business was to demonstrate that "a stable, healthy economy helps everyone."

"You know that, and I know that," Mr. Eastham told the audience at a special session on leadership for organization executives. "But have we convinced anyone else?"

"Does the average American identify his or her interests with those of business? Or does he think we're on opposite sides? Too often, he thinks we're on opposite sides. It's our responsibility to change that."

"We must concentrate on building a constituency. . . . We must build a con-

stituency to explore, define, and act on the needs of the nation."

The meeting marked the end of Mr. Eastham's year of service as chairman of the National Chamber board, a period in which he concentrated on developing a program to help small business and on urging business people to become more involved in the political arena.

Mr. Harris said that, in its 66 years of existence, "the National Chamber has gathered tremendous momentum. Year after year, our membership and revenues rise dramatically; our base grows stronger and stronger."

"We have gained a dramatic new visibility. We are recognized as the leading business advocate by both allies and critics."

Mr. Harris paid tribute to the members of the National Chamber staff, stating that "their continued hard work and dedication have molded our organization into one which is effective and influential."

Inflation warning

A major component of the "new agenda" was provided by Dr. Arthur F. Burns, who chose the dinner winding up the National Chamber's annual

meeting for his first major address since leaving the chairmanship of the board of governors of the Federal Reserve System in March.

Dr. Burns was honored at the dinner for his contributions to the nation and the enterprise system during his government service.

In a speech responding to the tribute, Dr. Burns said the nation now needs "a strong and credible anti-inflation program."

In fact, he said, "we're going the wrong way."

He cited such developments as the increasing federal budget and deficit, higher Social Security taxes, a higher minimum wage, agricultural subsidies, import restrictions, costly government regulation that adds to consumer costs, and the substantial, government-sanctioned wage increase for coal miners.

Such government policies, Dr. Burns said, are already reflected in a higher rate of inflation.

He offered his own anti-inflation program, which calls for reducing the federal deficit; a ten percent pay cut for the President, other top officials of the executive branch, and members of Congress; holding salary increases for other federal workers to half the normal rate; establishing a national productivity center to help business and labor increase output per man-hour; an easing of government requirements that increase business costs; a cap on pay of top corporate executives; and firm action to deal with the depreciation of the dollar overseas.

He also echoed the theme of the National Chamber leadership: "You businessmen have a great responsibility. . . . Get into the political arena and be active in it. . . ."

"Don't blame our Congress if you yourselves remain inactive in the world of politics."

Meeting highlights

Among other highlights of the National Chamber's 66th annual meeting:

- Senate Minority Leader Howard H. Baker, Jr. (R-Tenn.), warned that the nation "might slip into some form of socialism without ever intending to." The principal domestic challenge facing the country, he said, is whether "the free market system will continue and prosper." Sen. Baker was the principal speaker at traditional ceremonies, held in historic Constitution Hall April 30, marking the opening of the three-day annual meeting.
- Former Treasury Secretary Wil-

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William E. Simon challenged small-business participants to launch a national movement committed to lifting "the crushing burden of taxation off the backs of business." He was featured speaker at a tribute to small business.

Labor law changes

• A balanced panel on highly controversial legislation to change labor law produced a spirited discussion that was particularly timely, coming just prior to the start of Senate debate on the measure. Participants included Sen. Harrison A. Williams, Jr. (D.-N.J.), chairman of the Senate Human Resources Committee and a principal sponsor of the bill, and Sen. Orrin G. Hatch (R.-Utah), leader of the other side.

Other key panelists were Robert T. Thompson, a prominent labor lawyer who is treasurer of the National Chamber, chairman of its labor relations committee, and chairman of the National Chamber Litigation Center, Inc., and Thomas R. Donahue, executive assistant to President George Meany of the AFL-CIO.

Charles H. Smith, Jr., a member of the National Chamber Senior Council and chairman of SIFCO Industries, Inc., Cleveland, presided at the forum, which was marked by a sharp clash over the true intent of the legislation.

Sen. Williams held, as does the AFL-CIO, which initiated the move to change labor law, that the bill is designed primarily to revise the National Labor Relations Act to prevent abuses and speed procedures of the National Labor Relations Board. He said some employers have been able to use provisions of the current law to thwart and delay union representation that their workers wanted.

Sen. Hatch asserted, however, that the measure was one of the most important before Congress because it could have "a particularly devastating effect on small business."

The House has approved the labor bill, and business hopes of killing the legislation now center in the Senate.

Mr. Thompson said labor's goal in pressing for the passage of the bill was clear-cut—"the purpose is to unionize nonunion workers."

The business community's interest was dramatized by the hundreds of Mailgrams sent from the annual meeting headquarters hotel to senators, urging them to oppose the legislation. In addition, many of those attending the meeting paid personal calls on their senators for the same purpose.

• Mr. Harris told a special session on energy that the cost to the nation of not having enough energy is far greater than the cost of providing it, whether or not energy prices are regulated.

"Too many of our elected officials," Mr. Harris said, "have sought credit for keeping energy cheap, while refusing to recognize that their efforts have also prevented the availability of an adequate supply."

Mr. Harris presided over a discussion panel that included Herbert S. Richey, chairman of the National Chamber's executive committee and president and chief executive officer of The Valley Camp Coal Co., Cleveland; Dr. T. R. Santelli, vice president and director of research and development for Owens-Illinois Corp., Toledo; and Rep. Mike McCormack (D.-Wash.), chairman of the House subcommittee on advanced energy technologies and energy conservation. Mr. McCormack is considered the leading House expert on nuclear energy.

The panelists agreed that production costs and selling price are two of the basic factors affecting the energy supply. That is true even in the case of solar energy, Mr. Richey said.

"If you want to push development of solar energy," he said, "deregulate natural gas and domestic oil and get them up to a free market price, which will then provide a great incentive to go to the so-called exotic forms of energy."

Need for a sunset law

• Sen. Edmund S. Muskie (D.-Maine), chairman of the Senate Budget Committee, told a session on the American economy that "the federal government now operates more than a thousand different programs touching every aspect of our daily lives. Few, if any, ever end. And every year there are more." He said this has prompted him to press for enactment of sunset legislation, under which federal programs would be reviewed periodically and those no longer justified would be abolished.

James T. McIntyre, Jr., director of the Office of Management and Budget, pledged to the delegates to work to "streamline procedures, simplify federal guidelines, and in every way possible cut out red tape and useless regulations."

• The prospect of an eventual, combined Social Security tax rate of 24 percent—nearly twice the current level—was raised at a session on the financially troubled retirement system.

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"America at the Turning Point" was the topic of this panel. National Chamber President Leshner (center) was moderator. The panelists (from left): economists Andrew F. Brimmer, Irving Kristol, and Marina v. N. Whitman, and Hugh Sidey, "Time" magazine contributing editor. Dr. Brimmer and Dr. Whitman are both former members of the Council of Economic Advisers.



"The survival of American business is being increasingly threatened by government interference," J. Willard Marriott, Jr., said in an address to the delegates. He is president of Marriott Corp. and a National Chamber director.

chief actuary of the Social Security Administration, said the 24 percent level could be reached early in the next century if the present program "is not modified significantly." A further extension of the mandatory retirement age—recently moved up from 65 to 70—and perhaps its abolition were among the modifications he suggested.

Health-care costs

- Dr. Paul M. Ellwood, Jr., a leading specialist on medical economics, spotlighted the issue of soaring health-care costs by asking the audience at a special session: "If you had customers who didn't care how much your product costs, what would you charge?" He said that "the combination of extensive insurance, fragmentation of patient care, indiscriminate use of technology, an oversupply of producers, and the mystique of doctor infallibility lead to costly utilization of more and more patient care."

Dr. Ellwood is conducting a study for the National Chamber Foundation on what business can do to improve the health-care system.

Jack K. Shelton, employee insurance manager at Ford Motor Co., noted that his company's health-care payments add \$120 to the cost of each automobile it produces.

- Harrison Wellford, executive associate director for reorganization and management in the Office of Management and Budget, showed that his agency is aware of a serious problem that many regulatory agencies fail to perceive—"the cumulative impact of regulations coming from various federal agencies." He spoke at a session on limiting growth of government.

Warren B. Buhler, a former director of the Federal Paperwork Commission, told the same session that business should demand creation of a federal budget system that shows precisely how much business must spend to satisfy federal regulatory requirements. He said that "burdens imposed by government programs are too often ignored, and benefits are assumed to occur. Without good data on business costs, government cannot be expected to ease regulatory burdens or improve their effectiveness."

Global trade problems

- Donald M. Kendall, chairman and chief executive officer of PepsiCo, Inc., who is a director of the National Chamber and chairman of its International Policy Committee, said at a panel discussion on worldwide trade

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The state of the economy was discussed by (from left) Sen. Edmund Muskie (D-Maine); economist Herbert Stein; and Dr. Jack Carlson, vice president and chief economist of the National Chamber.

WHO SAID
HARRY W. HARRIS



"Women in Business" was the topic of this panel. Dr. Carl Grant (center), National Chamber vice president for communications, was moderator. Panelists from various businesses were (from left): Bruce Harriman, Julia M. Walsh, Barbara Boyle Sullivan, and Anne M. Saunier.



William G. Van Meter, senior vice president of the National Chamber, welcomed Commerce Secretary Juanita Kreps to the annual dinner.

competition that "despite our burgeoning trade deficits, too large a portion of American business has been unwilling to allocate the resources—to expend the effort, really—to make a successful go of entering the international marketplace. . . . Our foreign competitors, on the other hand, have been much more willing to commit the time and resources necessary to succeed in our market, as a trip through any department store or auto showroom amply demonstrates."

At the same time, Mr. Kendall said, "it is equally important that our exports be permitted as free access to overseas markets as foreign products are given here."

In a separate session on international commerce, the President's special trade representative, Ambassador Robert S. Strauss, said the administration

wants to discuss three principal issues at a July economic summit conference in Bonn, Germany. Those issues are the internal growth of the participating nations, an end to the disruptive situation in international monetary markets, and development of a trade package. Americans should keep in mind, the ambassador said, that exports represent \$120 billion in domestic production, and "that's big business."

• J. Willard Marriott, Jr., a director of the National Chamber and president and chief executive officer of the Marriott Corp., told a general session of the annual meeting that "survival of American business is being increasingly threatened by excessive government interference."

As an example, he cited the minimum wage law recently enacted by

Congress. "Increasing base wages by 15 percent," he said, "will add an estimated 1.1 percent to the inflation rate this year."

Because of the new minimum wage levels, Mr. Marriott said, "the inexperienced, the youth, those seeking a first job, will be laid off or stopped cold at the company employment office."

If Congress approves President Carter's proposal "to cut tax deductions for business-related entertainment of customers," he added, "this so-called reform would force the Marriott Corp. to eliminate about 2,700 jobs nationally the first year."

More help in Congress

• Clark MacGregor, a Washington-based corporate executive and former congressman, spoke at a session on the 1978 congressional elections. Mr. Mac-



William H. Webster (right), the new director of the Federal Bureau of Investigation, gave an inspirational address at a breakfast on "America's Religious Principles." The delegates unanimously adopted a statement of support for the FBI. Mr. Webster is shown here with Shearon Harris, new chairman of the National Chamber.

PHOTO: PHIL S. KOWALSKI



A permanent solution to business problems with government lies in the election of a sympathetic Congress, Sen. James A. McClure (R-Idaho) told the delegates.

PHOTO: NEW PHOTO



The "Nation's Business" display was part of an extensive exhibit featuring the National Chamber's communications projects.

James T. McIntyre, Jr., director of the Office of Management and Budget, pledged federal efforts to cut "red tape and useless regulations."

PHOTO: MASON L. HARRIS



Gregor urged business to identify congressional candidates sympathetic to the free enterprise system, "unabashedly get behind them, and back them to the hilt."

A. Dean Swift, president and chief administrative officer of Sears, Roebuck and Co. as well as a National Chamber director, urged business people to find out "how your representative voted in Congress—not just on a bill's final passage, but on key preliminary roll calls and in critical committee votes."

• Sen. James A. McClure (R-Idaho) told a meeting on organization leader-

ship that business "must plan beyond the next vote and must realize that a permanent solution to its problems requires the election of a congressional majority that believes in the workings of the free enterprise system."

Sen. McClure joined with other panelists in voicing concern that some businesses support candidates who provide short-term aid to a specific company but otherwise vote against the overall interests of business.

• Anne Wexler, newly appointed special assistant to President Carter, said in a panel discussion on women in business that "women long to be a part

of the free enterprise system. . . . They may prove to be the next wave of entrepreneurs."

She suggested that companies could initiate internal programs designed to move women into higher-paying jobs. At present, she said, women are still generally clustered in positions offering little upward mobility.

• L. John Rankine, director of standards and data security for IBM Corp., told a special session on privacy that his company has made extensive gains in educating its customers on the availability and use of security devices to control access to computers.

He added, however, that "the issue of privacy transcends mere machinery. Any record-keeping, even by hand, infringes on privacy. We cannot solve the privacy issue by legislating technology. We must legislate human rights."

Rep. Barry M. Goldwater, Jr. (R-Calif.), noted that extensive legislation on the privacy issue is pending in Congress. He predicted the first specific issues to be considered would deal with limits on eavesdropping; on the use of polygraphs, often referred to as lie detectors; and on dissemination of medical records. He also raised the possibility there would be legislation later this year designed to overturn a Supreme Court decision that an individual's bank records are the property of the bank and that the account holder has no control over them.

Support for FBI

• William H. Webster, the new director of the Federal Bureau of Investigation, gave an inspirational talk to the annual meeting breakfast, whose theme was "America's Religious Principles."

Those attending the annual meeting adopted unanimously a statement calling for strong public support of the FBI.

The statement urged Congress and the White House to "avoid making the agency a public scapegoat" or taking any other steps that would "weaken this institution which is so vital to the protection of our system of government and our way of life."

The statement said: "Over the years, the FBI has undertaken the responsibility of protecting our national security in order to assure the rights of all citizens."

"We must be vigilant to ensure that transitory political events do nothing to undermine the FBI's strength or effectiveness." □

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Debunking the Claims of the Tax Reformers

By Paul Craig Roberts

Corporations and the rich don't pay their fair shares of the taxes? Let's take a look at some facts

PHOTO: DENNIS BRACK—BLACK STAR



Dr. Roberts is economic counsel to Sen. Orrin G. Hatch (R-Utah) and adjunct professor of economics at George Mason University, Fairfax, Va.

IF PROPER disclosure law applied to tax reformers, they would all be in prison. An outrageous statement? Perhaps, but one that's all too easy to document. Consider the main charges that tax reformers make:

- The effective corporate tax is far below the statutory rate.
- As a result of wealthy corporations avoiding taxes through loopholes, corporations are paying a declining share of the total tax burden, thus increasing the burden on the little man.
- The rich don't pay taxes.
- Poor and middle-income taxpayers are taxed on all their income while

upper-bracket money escapes through loopholes and deductions.

- The federal tax burden as a percentage of income has remained constant for years.

The real story

What are the facts? The U. S. Commerce Department's National Income and Product Accounts shows that the effective tax rate on real corporate profits has been higher than the statutory rate (48 percent) for the past decade, exceeding 100 percent in 1974 in spite of the loopholes.

Table One summarizes what official

government statistics show the tax rates to be for the years 1968-76. Notice that the effective tax rates go up and down with inflation.

This is because inflation overstates profits by causing company books based on historical costs to understate the true cost of replacing the plant, equipment, and inventory that are used up in production. As a result, part of what the books show as net revenues, which are subject to tax, represents the understatement of the companies' costs. In this way, inflation converts costs into taxable income, thereby increasing the effective tax rate on corporate profit.

Retirees suffer

Since pension funds own a growing share of the largest corporations, the government has been using inflation to increase its share of corporate income at the expense of the private incomes of the retired. This game plan leads to greater government spending programs for the aged.

The effective tax rates in the table were obtained by adjusting inventory and existing tax depreciation allowances for replacement costs.

True, existing depreciation schedules contain accelerated write-offs that some people claim compensate for inflation. To adjust accelerated depreciation schedules for replacement costs, some claim, is to compensate for the effect of inflation twice, thus exaggerating the rise in the effective tax rate.

The trouble with this argument is that the firms get to use the accelerated schedules regardless of the rate of change in the price level, so an increase in inflation does result in depreciation being understated compared to the real depreciation values that the firms would otherwise have.

The next table—effective tax rates
NATION'S BUSINESS • JUNE 1976

by fiscal year—comes from the 1978 annual report of the Joint Economic Committee of Congress. It is calculated on the basis of historical straight-line depreciation without the accelerated elements in the current tax code. These effective tax rates are not as high as the ones that the firms actually experience. However, they do show that inflation has raised effective rates over the past decade.

For the first five years of the decade 1968-77, the average effective federal tax rate was 40.2 percent. For the second five, it averaged 47.7 percent—an 18.6 percent increase. If state and local taxes are included, the average effective tax rate increases from 44.9 percent to 55.2 percent—a 23 percent increase.

Of course, if we take these straightforward statistics and doctor them in the way tax reformers do, interpreting them through self-serving definitions invented for the purpose, we can create an image contrary to fact.

Corporate profits fall

Another favorite trick used by tax reformers is to falsify not the figures, but the context in which they are presented.

Corporate income tax receipts are declining as a percentage of total tax receipts, but not because corporations are avoiding taxes. The simple fact is that corporate profits have fallen drastically as a percentage of total income. Since corporate income is a declining share of total income, it is only natural that corporate income taxes are declining as a percentage of total income taxes. Table Three tells the story.

Yet another trick is to seize on exceptions and pretend they were the rule. Thus, we hear every year about millionaires who don't pay taxes. The Internal Revenue Service Statistics of Income does show that 13 millionaires paid no income tax in 1975—ergo, poor and middle-income taxpayers carry the burden that the rich avoid. This information nurtures a hardened suspicion of the well-off members of our society, because the tax reformers didn't tell us about the 1,136 other millionaires in 1975 who paid an average tax of \$1,011,000. Fuming at the one percent who didn't pay, we lump the other 99 percent in with them.

The tax reformers have escaped criticism because they advance their cause behind the shield of helping the poor. And who wants to be the ogre

who would deny help to the poor? Besides, tax reform to help the poor is easy, because the poor don't pay any taxes. Therefore, it doesn't cost the government anything.

Tax burden shifts

The poor don't pay taxes, you say? Why everybody knows that the bulk of the taxes are paid by the poor! Not according to the IRS Statistics of Income. Look at the data in Table Four and be amazed at the distribution of the tax burden.

The top ten percent of income earners paid almost 50 percent of personal income taxes collected in 1975. The top 50 percent of income earners—those with adjusted gross incomes of \$8,931 or more in 1975—paid 92.9 percent of the total tax bill.

The table reveals another interesting fact: The tax burden is shifting away from lower-income people. In 1970, the bottom 50 percent of taxpayers coughed up 10.3 percent of the total taxes paid. By 1975, this figure had declined to 7.1 percent. The latest Treasury figures show that, in 1976, the lower half's share declined further, to six percent. In addition, the Tax Foundation reports that "several mil-

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PERCENTAGE OF TOTAL TAXES PAID BY HIGH AND LOW-INCOME TAXPAYERS 1970 AND 1975

| Adjusted gross income class | Income level | | Percentage of tax paid | |
|--------------------------------|------------------|------------------|------------------------|------|
| | 1970 | 1975 | 1970 | 1975 |
| Highest one percent | \$43,249 or more | \$59,338 or more | 17.6 | 18.7 |
| Highest five percent | 20,867 or more | 29,272 or more | 34.1 | 36.6 |
| Highest ten percent | 16,965 or more | 23,420 or more | 45.0 | 48.7 |
| Highest 25 percent | 11,467 or more | 15,898 or more | 68.3 | 72.0 |
| Highest 50 percent | 6,919 or more | 8,931 or more | 89.7 | 92.9 |
| Lowest 50 percent | 6,918 or less | 8,930 or less | 10.3 | 7.1 |
| Lowest 25 percent | 3,157 or less | 4,044 or less | .9 | .4 |
| Lowest ten percent | 1,259 or less | 1,527 or less | .1 | .1 |

Source: Tax Foundation computations based on Internal Revenue Service's Statistics of Income.

lion taxpayers disappeared from the tax rolls altogether as a result of legislative changes benefiting those with lower incomes during the period 1970-75."

Many of the untaxed receive transfers in kind, such as food stamps and housing subsidies, together with earned-income credits (negative income tax) and welfare checks, so that their real income exceeds that of many taxpayers.

In contrast, the top one percent—those earning \$59,338 or more in 1975—carried almost 20 percent of the tax burden. For every \$1 paid by the bottom ten percent, the top one percent paid \$187. The 1976 figures show that those with incomes of \$100,000 and up comprise three tenths of one percent of all taxpayers. These well-to-do receive 4.5 percent of the total income—but pay 10.5 percent of the total tax bill.

The untaxed millions

President Carter's tax reform proposal to replace the \$750 personal exemption with a \$240 tax credit would further reduce the share of the total taxes paid by the lower 50 percent of taxpayers. It may well result in a situation in which the top 50 percent pay 100 percent of the total taxes.

From the standpoint of practical politics, we are already in that situation. With millions of people dropped from the tax rolls and with half the taxpayers paying only six percent of the total taxes, we have achieved representation without taxation—the opposite of what our revolution in 1776 was about.

The favorite ploy of the tax reform-

ers is to point out that upper-income taxpayers receive a disproportionate share of so-called loophole benefits. They don't point out that these same people also pay a disproportionate share of the income taxes. As Sen. Carl T. Curtis (R-Nebr.), a member of the Finance Committee, has stated: "When the distribution of tax breaks is considered in the context of the distribution of the tax burden, we are not likely to make the mistaken inference that upper-income taxpayers do not pay any taxes because of tax breaks."

Neither do the tax reformers point out that 70 percent of the benefits go to people who are not in the upper brackets. Instead, they emphasize the benefits that conjure up visions of elaborate tax shelters for the rich. For example, Sen. Edmund S. Muskie (D-Me.) complains that 68 percent of the benefits from the special treatment of capital gains go to upper-income taxpayers. He also mentions that 85 percent of the interest from tax-free bonds goes to the same group, and he winds up with the other two most-mentioned loopholes: percentage depletion for oil, gas, and hard minerals, and accelerated depreciation on housing investments.

But the Treasury's loophole list is 69 items long. Let's look at some of the others.

Largest loophole

The largest tax loophole consists of the pension plans that employers provide for their employees. Last year, this was an \$8.7 billion loophole. If we add in individual pension plans, we have a loophole through which \$10.1 billion falls—80 percent of which goes

to people who are not in the upper brackets. Not what we usually think of as a tax shelter! The second largest tax shelter on the Treasury's list is the itemized deduction of state and local taxes—a \$7.7 billion loophole, the majority of which benefits people who are not rich.

On Jan. 21, President Carter proposed tax "reforms" which would eliminate itemized deductions for sales, gasoline, and personal property taxes. These are hardly upper-income tax shelters. Only nine percent of the benefits from the deductibility of state gasoline taxes go to upper-income people.

Another large loophole is the payments employers make for medical insurance for their employees—\$5.7 billion. Seventy-one percent of the benefits go to people making under \$30,000, and 87 percent go to those making under \$50,000.

Individual deductions for medical expenses are on the list, a \$2.2 billion item. Sixty-six percent of these benefits go to people earning under \$30,000, and 84 percent go to people earning under \$50,000.

The tax reformers don't tell us that the loopholes consist primarily of the extra benefits, deductions, and exclusions that in large part benefit ordinary people.

They don't tell us that Social Security is a \$5.1 billion tax loophole—but it's right there on the Treasury's list. So are the exclusions from taxation of military disability pensions, scholarships and fellowships, railroad retirement benefits, disabled coal miners' benefits, veterans' disability compensation, public assistance, workmen's

compensation, sick pay, GI bill benefits, and unemployment benefits.

The tax reformers don't tell us that the loopholes are the primary income shelters for those in the middle to lower tax brackets. The percentage difference between adjusted gross income and taxable income is greater the lower the income bracket.

More income, less shelter

Treasury figures for 1976 show that, in the under \$10,000 adjusted gross income class, deductions came to 48.9 percent of adjusted gross income. In the \$10,000-\$24,999 class, deductions were 31.1 percent, and in the over \$25,000 class they were only 22.8 percent. The higher the income, the less it is sheltered by deductions and exclusions.

The same holds for extra benefits, which obviously are a larger percentage of a \$15,000 salary than they are of a \$100,000 salary. Sen. Orrin G. Hatch (R-Utah), a member of the Joint Economic Committee, has calculated that taxing extra benefits as personal income would mean an increase in taxes of \$240 for the average taxpayer. His calculation is based on employer-provided extras, such as payments into

| Year | Inflation Rate (CPI) | Effective Tax Rate* |
|------|----------------------|---------------------|
| 1968 | 4.7% | 52% |
| 1969 | 6.1 | 57 |
| 1970 | 5.5 | 64 |
| 1971 | 3.4 | 62 |
| 1972 | 3.4 | 56 |
| 1973 | 8.8 | 63 |
| 1974 | 12.2 | 102 |
| 1975 | 7.0 | 84 |
| 1976 | 4.8 | 78 |

* Tax liability as a percentage of corporate profits, with inventory and tax depreciation allowances adjusted for replacement costs.
Source: Bureau of Economic Analysis, U. S. Department of Commerce.

pensions, for which we have dollar figures.

The Treasury's loophole list is not computed on the basis of adjusted gross income, but on the basis of a new invention called expanded gross income, which includes untaxed income such as the untaxed part of capital gains. The result is to give the appearance of a lower effective tax rate on the upper brackets. The problem with

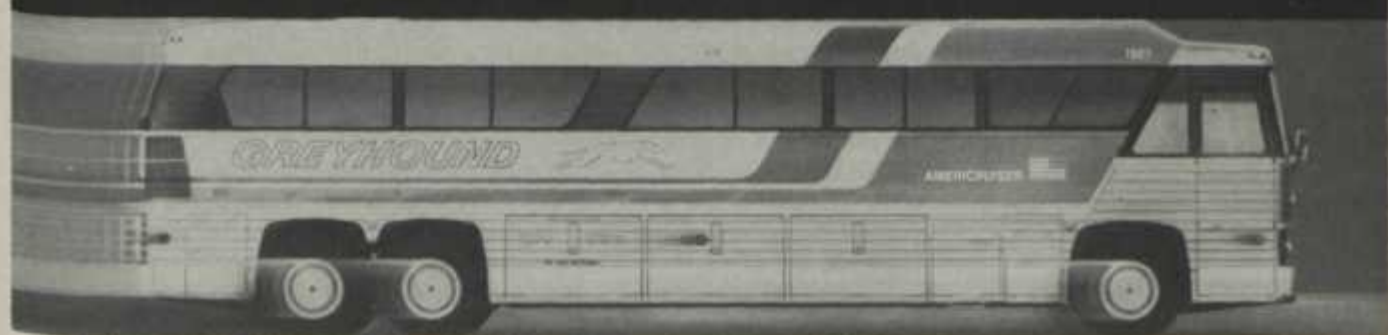
EFFECTIVE TAX RATES ON U. S. CORPORATIONS BY FISCAL YEAR*

| Year | Federal | Federal, State, and Local |
|------|---------|---------------------------|
| 1968 | 33.3% | 37.6% |
| 1969 | 42.6 | 46.3 |
| 1970 | 45.6 | 50.7 |
| 1971 | 39.4 | 44.3 |
| 1972 | 40.1 | 45.6 |
| 1973 | 38.1 | 44.2 |
| 1974 | 45.0 | 52.0 |
| 1975 | 62.4 | 72.5 |
| 1976 | 41.4 | 48.7 |
| 1977 | 51.8 | 58.8 |

* Based on adjusted economic profits equal to National Income and Product Accounts profits less an adjustment to the capital consumption allowance adjustment implied by the new Securities and Exchange Commission replacement cost data. The added annual adjustment equals 100 percent of the old adjustment.

Source: Joint Economic Committee, 1978 Annual Report.

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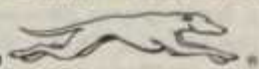
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CORPORATE PROFITS AS A PERCENTAGE OF NATIONAL INCOME



Source: U. S. Department of Commerce, Bureau of Economic Analysis.

Note: The measure shown is corporate profits before tax with inventory valuation and capital consumption adjustments as a percentage of national income (p. 4, Economic Indicators, March 1978).

this concept is that it confuses capital with income. The only purpose of counting capital as income is to reduce the individual's ability to accumulate and hold on to assets—that is, to make it difficult for an individual to be economically independent from government.

Target: homeowners

The tax reformers really have it in for homeowners. The Treasury's loophole list shows that the deductions for mortgage interest and real estate taxes were a whopping \$8.7 billion loophole in 1977. Fifty-six percent of this money stayed in the pockets of people earning less than \$30,000. The tax reformers even propose to tax homeowners on the rental value of their homes. They call it taxing imputed rent. Their reasoning is that owning a home provides

income in kind (shelter). The value of that income is the rental value, so up goes your taxable income by the rental value of your home—even though it is not rented and you are living in it.

This so-called reform would be especially valuable to the government as it pushed homeowners into higher tax brackets, requiring them to pay more in taxes on the same money incomes. It would be valuable also because it would establish a new principle of taxation that could be applied to home vegetable gardens and to the services of housewives. Cooking services, cleaning services, laundry services, and child-rearing services are also income in kind. The imputed value of a housewife who is good at all of these tasks would exceed the salaries or wages of many husbands.

When Sen. Muskie complains of 68

percent of the benefits from the special tax treatment of capital gains and of 85 percent of the benefits from the tax exemption for state and local bond interest going to taxpayers with incomes over \$50,000, he is concerned about lost tax revenues. He says the special capital gains treatment is a \$6.9 billion loophole and the bond tax exemption is a \$1.7 billion loophole. The senator needs a lesson in elementary economics.

It is an erroneous idea that tax-free bonds mean higher incomes for the rich. Take a person in the 50 percent marginal tax bracket. He buys a tax-free bond paying five percent only because that is equivalent to the after-tax rate of return on an investment earning ten percent before tax. Taxing the bond interest would drop the rate of return to 2.5 percent, and he would not buy the bonds.

Even sillier is the notion that taxing capital gains as ordinary income would bring in \$6.9 billion in additional revenues. A recent study by Data Resources, Inc., shows that to tax capital gains as ordinary income would reduce federal tax revenues \$25 billion over the next five years. It would also add 1.5 million people to the ranks of the unemployed and reduce gross national product \$115 billion. This is because such a step would eliminate many billions in capital investment with all the resulting economic spinoffs.

On the other hand, the study shows that if all taxes on capital gains were eliminated, tax revenues to the government would increase \$38 billion over the next five years. This is because the increased saving, investment, and capital mobility that would result would create 3.1 million additional jobs and raise the GNP \$199 billion.

Government's loophole

The greatest loophole of all in our income tax system works for the benefit of government. It is the loophole that allows government to use inflation to increase taxes on constant and even declining levels of purchasing power without having to legislate higher tax rates.

Between 1966 and 1976, the average wage rose 77.3 percent, and the consumer price index rose 75.4 percent. So the average worker kept up with inflation, but not with taxes. The total tax burden rose 144 percent during the same period. Because of the progressive structure of the income tax, when people's money incomes rise they enter

higher tax brackets. The government's revenues don't simply rise at the rate of inflation; they rise 1.6 times the rate of inflation.

American after-tax incomes have been undone by tax-flation. This explains why government prefers to cut taxes in the lower brackets. Inflation soon pushes people into the higher brackets that were not cut.

The central issue of tax reform is closing this loophole. But in their proposal to tax capital gains as ordinary income, the tax reformers show every intention of opening the loophole wider. Widening it allows government to establish a wealth tax in the guise of an income tax—wealth meaning asset. A wealth tax is not a tax only on the wealthy. Whereas a rich man owns more assets than one who is not rich, the nonrich collectively own many assets.

The growing tax burden

In 1929, the total government tax bite (state, local, federal) in the U. S. was 12 percent of the national income. By 1960, it had grown to 33 percent. By 1976, government had extended its share to 42 percent (including deficit spending). In 1976, the total expendi-

tures of all Americans for the three basic necessities of food, clothing, and housing came to \$469.7 billion. Their total tax bill came to \$486.4 billion—\$16.7 billion greater.

The growth in our absolute income has kept us from realizing that our share relative to taxation is declining. And tax reformers supply us with selective information designed to soothe—for example, the federal personal income tax take has remained roughly constant as a percentage of personal income for years, at about ten to 11 percent of personal income. They don't tell us that this average federal take is the result of millions of people being pushed into higher tax brackets while millions of others are dropped from the tax rolls.

In feudal times, the rich collected taxes and the poor paid them. In the U. S. today, the poor collect taxes and the rich pay them. But poor or rich, all are ensnared. The one has to turn over his income to the government, and the other has to depend on the government for his income.

Many may reject this parallel. They may say that we have a democratic government controlled by the people and that high taxes and big govern-

ment merely reflect the voters' demands for public goods in the public interest. Such an argument is reassuring, but problematical. The income tax was voted in under one guise and retained under another. Furthermore, it was the action of a past generation. For us, it is an inherited obligation, as were feudal dues.

All of us have been born to the statist gospel that government is the instrument of social progress. Clamor for tax reduction is translated into proposals for tax reform, which are further transformed into proposals for securing more revenues for government.

As we hear the talk about tax reform and equity, we should keep in mind that equity means more taxes on the productive with which to subsidize the most powerful interest groups and to finance public waste—like the \$7 billion that the Department of Health, Education, and Welfare "lost" last year in "waste, fraud, abuse, and mismanagement," according to a report to HEW Secretary Joseph Califano.

Unfortunately for Americans, the attitude has developed in government that tax loopholes are immoral, but that waste of taxpayers' money is merely routine. □

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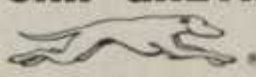
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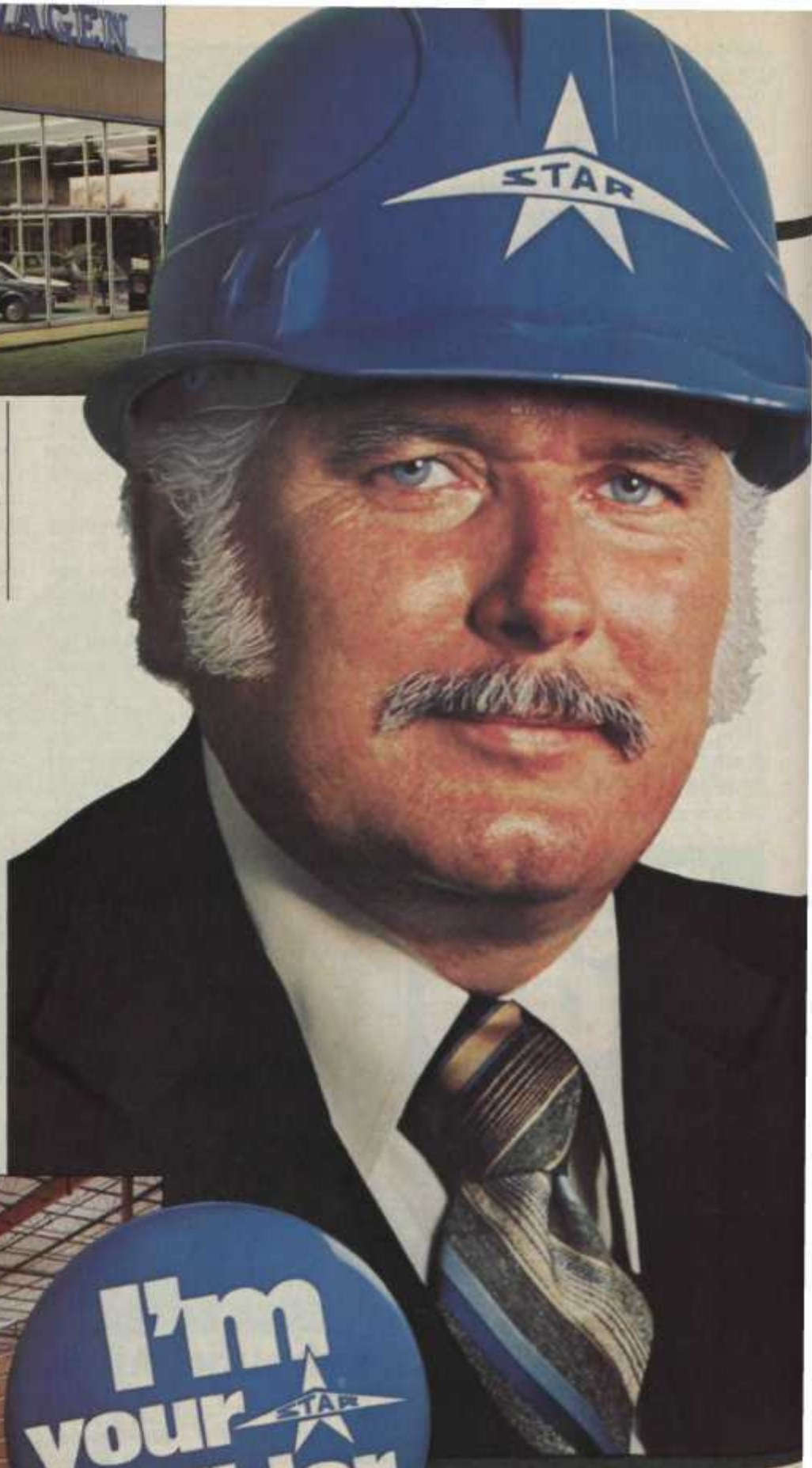
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Even the staid Fed is acquiring a modern look. Right: The new home of the Federal Reserve Bank of Minneapolis.

PHOTO: ALVIN UPITIS—THE CHASE BANK

To humanize its automatic teller machines, the First National Bank of Atlanta dubs the devices "Tillie" (below).

PHOTO: SID SMITH



PHOTO: MANUFACTURERS BANK, DETROIT

Competition has fostered stylish decor, such as this 160-foot three-dimensional mural (above) in Detroit's Manufacturers Bank.

PHOTO: ARTHUR LARSEN—CHASE MANHATTAN BANK



PHOTO: HARVEY NEWMAN—WOODFIN CAMP ASSOCIATES, INC.

The New York Stock Exchange (above), where trading hit record levels in April, will be a major component of a National Market System for listed securities.

Chase Manhattan Bank, based in New York City, has 103 branches abroad, including this one in London. Foreign operations of U.S. banks have surged in recent years.

FINANCIAL SERVICES: Competition Spurs a Transformation

By Michael Thoryn

Nation's Business
**INDUSTRY
SPECIAL
REPORT**



AGGRESSIVE COMPETITION is enveloping the \$2.5 trillion-assets financial services industry.

Banks, savings and loan associations, and other financial institutions have been pummeling each other with court suits and energetic marketing practices that have caused a blurring of distinctions between them. For example, in

controversy in months ahead. Two federal regulatory agencies have approved rules, to take effect in November, that would allow banks to offer automatic funds transfer from savings to checking accounts to cover overdrafts. S & L groups vow a court battle.

Technical changes are coming to the industry, too. The advance guard are

The vast financial services industry is composed of intermediaries who make loans, accept the risk on a loan, collect interest from borrowers, and pay a portion of this interest to the saver as interest on funds in his account. Included are commercial banks, savings and loan associations, mutual savings banks, life insurance companies, finance and investment companies, credit unions, and private and public pension funds.

Boon for the consumer

"All depository institutions are faced with significantly higher levels of competition than they have experienced in the past," observes George W. Mitchell, a former member of the Federal Reserve Board and now a consultant to the board. "Managers of depository institutions have become resigned to, prepared for, or even enthused by a more competitive environment. Such attitudes are only realistic."

Mr. Mitchell's opinion is supported by Wray O. Candilis, an economist who analyzes the commercial banking industry for the Commerce Department.

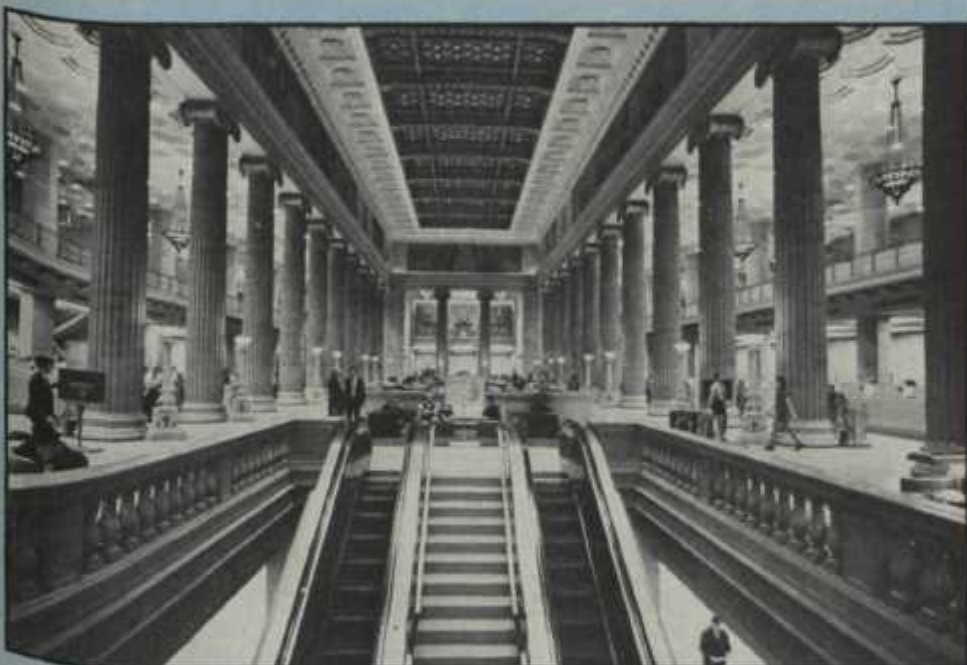
"The main issue is competition," Dr. Candilis says, "and for the consumer, it is a healthy situation." There will be problems for some institutions as competition among banks, savings and loans, mutual savings banks, and credit unions heats up, he explains.

"Commercial banks will not be so dominant a consumer loan source nor the only place where you can have a checking account," Dr. Candilis predicts.

And the trend of concentrating assets in large multinational banks will continue, concludes "Banking 1985," a study by the Mosler Safe Co., which manufactures ATM's.

"The small bank will continue to have a role in the banking system, but there will not be the large number that presently exist," the study predicts. "Laws that now protect the small institutions against competition will be phased out and unit banks that do not possess good management will fold or be sold to larger institutions."

Commercial banks are the dominant factor in the American financial services



The majestic calm of lobbies such as that of Chicago's Continental Illinois Bank belies the intense competition in the financial services industry.

some states, savings and loans have moved on commercial banking's turf by offering check-like negotiable orders of withdrawal, called NOW accounts.

Some banks are offering what amounts to interest-bearing checking accounts, and many are diversifying their loan portfolios to include more consumer and mortgage loans.

And credit unions, the fastest growing segment of the financial community, have won the right to offer share drafts, another version of an interest-bearing checking account.

Additional methods to entice customers include premium offers for opening accounts, "personalized banking," refurbished offices, and longer lines of credit combined with overdraft privileges.

Overdrafts will be a subject of con-

metal-cased automatic teller machines, which have spread 24-hour branch banking throughout the nation. But Americans have been slow to accept ATM's and other electronic hardware that can bring a less-cash society and eventually a "cashless" one.

Hitting "Tillie the Teller"

And balky technology can bring a drastic response.

In Atlanta, the First National Bank installed several models of an automatic machine it calls "Tillie the Teller." One customer put his transaction card in a Tillie, and when she would not give him either money or his card back, he got a tire iron out of his car and beat the machine up. He was arrested for causing close to \$1,000 worth of damage.



G. William Miller, chairman of the Fed, comes from the business world.



Chairman Robert H. McKinney of the Federal Home Loan Bank Board favors more urban lending by S & L's.

A COMPARISON OF ASSETS



Source: Federal Reserve Board, April 1978

industry. According to the Commerce Department, commercial banks held assets valued at \$1.124 trillion at the start of 1977, up nine percent from 1976.

Our banking system has been essentially a private one since the administration of Andrew Jackson, when the charter of the second Bank of the United States was not renewed by Congress. An exception is the state-owned Bank of North Dakota, which was established in 1919.

As custodians of economic resources of millions of citizens, the nation's approximately 15,000 banks are supervised in varying degrees by three federal agencies—the Federal Reserve Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corp.—as well as by 50 state agencies.

This country's closest equivalent to a central national bank, such as the state-controlled Bank of England, is the often-controversial Federal Reserve System. The Fed, as it is known, is run by the Federal Reserve Board and has 12 regional Federal Reserve banks. It plays a crucial role in the economy because of its ability to change the money supply.

Tasks of the Fed

Thousands of private banks belong to the Federal Reserve System, entitling them to a number of services, including loans from the Fed and use of the Fed's check-clearing and money transfer powers. Membership also means submitting to reserve requirements—funds that must be held as vault cash or as noninterest-bearing accounts at the Fed.

President Carter early this year appointed G. William Miller, then chairman of Textron, Inc., as chairman of the Federal Reserve Board, hoping for a monetary policy less independent of White House goals than the board's policy was under former Chairman Arthur F. Burns. Since taking office in March, Mr. Miller has championed strong action to curb inflation and to stabilize the international value of the dollar.

Mr. Miller and President Carter share the view that sustained economic growth is the key to solving long-term problems of unemployment and underinvestment.

Speaking to the Senate Budget Committee, Mr. Miller said: "The encouragement of greater capital spending must be an integral part of any comprehensive

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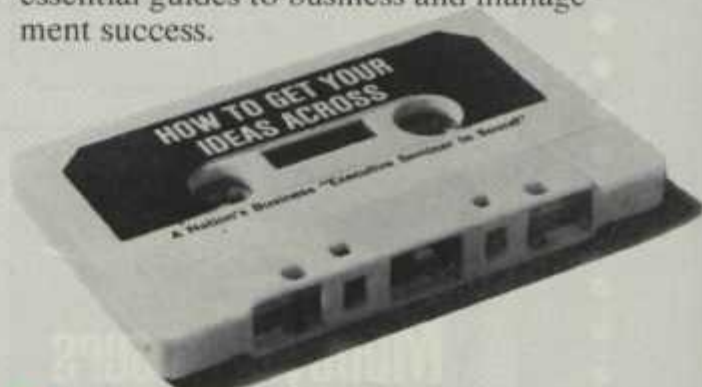
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WASHINGTON: Major Financial Legislation Is in the Works

A New England banker was dismayed recently when one of his best customers, who had a checking account balance of \$75,000, came in to close his account.

The customer was moving his money to an interest-bearing checking account, a negotiable order of withdrawal account offered by a savings and loan association.

America's banks, acknowledged as one of the strongest Washington lobbying forces among regulated industries, hope to head off legislation that would extend NOW accounts nationwide.

These accounts are currently offered only in the six New England states—Maine, Vermont, New Hampshire, Rhode Island, Massachusetts, and Connecticut.

Commercial banks fear a loss of business to thrift institutions such as S & L's and credit unions—banks have been barred from paying interest on checking accounts since 1933.

However, the issue may be settled in quite a different way. Rep. Fernand J. St. Germain (D.-R. I.), chairman of the financial institutions subcommittee of the House Banking, Finance, and Urban Affairs Committee, has in-



House Banking Committee Chairman Henry S. Reuss (D.-Wis.) is a major figure in financial legislation.

troduced a bill to authorize all federally chartered depositories to offer interest-bearing checking.

If H. R. 11896, the Consumer Checking Account Equity Act, passes, thrift institutions will have one of the major powers they have sought. Banks, in turn, will have a powerful argument for eliminating Regulation Q, the quarter-of-one-percent interest differential that thrifts now enjoy, which comes up for renewal by Congress at the end of the year.

Though the 95th Congress didn't pass any major financial industry legislation during its first term, the log-

jam could break this year. Some possibilities:

- Consolidation of federal bank regulation. The Senate Governmental Affairs Committee says a Federal Bank Commission should assume most of the functions of the Federal Reserve Board, the Federal Deposit Insurance Corp., and the Comptroller of the Currency.

"The present regulatory situation allows banks to shop for a regulatory agency as individuals might go from dealer to dealer shopping for a car," asserts Committee Chairman Sen. Abraham A. Ribicoff (D.-Conn.).

- The Safe Banking Act. Given impetus by the Bert Lance affair—in which the head of the Office of Management and Budget wound up resigning because of criticism engendered by loans he received as head of Georgia banks—the bill contains stringent overall limits on insider loans to bank officers. The American Bankers Association contends the bill is not necessary, that "regulators already have the powers to curb any abuses that do exist."

- The Competition in Banking Act. The bill, sponsored by Sen. William Proxmire (D.-Wis.), would bar bank mergers or bank holding company acquisitions if the result would be control of more than 20 percent of banking assets in a state. FDIC Chairman George A. LeMaire calls the bill anticompetitive and charges that enactment would be a "fundamental departure" from the existing federal bank regulatory structure.

sive national policy to achieve full employment, price stability, and a sound dollar internationally. Our efforts in this regard should be directed both at increasing the flow of savings available to private businesses and increasing the willingness of firms to undertake productive investment."

Lewis T. Preston, president of Morgan Guaranty Trust Co., New York, the nation's fifth largest bank, cites other crucial tasks ahead. "The federal budget deficit, which is alarmingly large at this stage of the business cycle, must be trimmed," he says. "An energy program that features conservation, increased domestic production, and the development of alternatives to oil must be adopted with a strong show of national unity in support of it. We must make a

stronger, more consistent commitment to the encouragement of exports as a national policy."

Bank profits rise

Despite the problems outlined by Mr. Miller and Mr. Preston, commercial bank profits were up 14.6 percent in 1977, helped by a general economic recovery, a rise in federal government borrowing activity, and fairly stable margins between interest rates and costs.

The Commerce Department estimates the banks' total loans in 1977 were \$660 billion, up 11 percent. Investments were \$266 billion, a modest six percent increase. Commercial banks held an estimated \$347 billion in checking accounts and \$536 billion in savings accounts.

Total bank loans are expected to grow

a little faster this year to \$739 billion, a 12 percent increase. The Commerce Department predicts assets will grow to \$1.214 trillion, an eight percent rise.

Though the number of banks has remained fairly constant since World War II, there has been an explosion in branch banking. In 1946, for example, there were 14,000 banks and 4,000 branches. Now there are about 700 more banks and 27,000 more branches. During 1976, there were 43 new banks opened and 1,142 branches added.

Banking has increasingly become a global business. Comptroller of the Currency John G. Heimann says foreign assets of U. S. banks have grown at more than three times the rate of domestic assets since 1972. At the end of 1976, foreign assets of U. S. banks topped

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FUND TRANSFERS: Are Checks on the Way Out?

Bad-check artists passed more than \$1 billion in worthless checks last year, according to the FBI.

But when electronic fund transfer reaches full bloom years from now, this type of dishonest activity will fade.

EFT—the use of computers and telecommunications equipment to speed the flow of currency—is slowly replacing coins, cash, checks, and even credit cards as we now know them.

And as EFT reduces to electronic blips the process of making payments, new skills will be needed to deceive a computer. Financial institutions and Congress are working hard now to make such electronic robbery as difficult as possible.

Although the timetable for full EFT is uncertain, these are likely overlapping occurrences in the years ahead:

- Wider use of automatic tellers for routine transactions. There will be a lessening of the need for more traditional brick and mortar branch banks and S & L's.

- A sharp drop in the number of paper checks. There were 27 billion written in 1977.

- Speedier collection and payments through a nationwide automated clearinghouse. With electronic

fund transfers, check float—the time between check writing and account debiting—will disappear.

- A steadily diminishing role for cash in transactions. Supermarkets have been leaders in installing bank-connected electronic point-of-sale terminals at checkout counters. Using a customer debit card, the terminal can pull the amount of the bill from the buyer's account and credit it to the store.

- More direct deposit of paychecks and other payments. Direct deposit is already widespread in Europe, and is used by the Social Security Administration and the Treasury Department in the U.S. Companies transmit payroll information on magnetic tape to depository institutions for automatic crediting to employee accounts. This eliminates delays, problems with lost or stolen checks, and worries about how a check will be deposited in the employee's absence.

One problem seen in all this electronic information transmission is consumer protection. The Senate consumer affairs subcommittee is grappling with bills that would limit consumer liability to \$50 for unauthorized electronic transfers and limit government access to EFT information to law enforcement needs.

Rep. Henry S. Reuss (D-Wis.), chairman of the House Banking, Finance, and Urban Affairs Committee, says: "While bankers should take advantage of the latest technology in a



Broadview Savings' 59 point-of-sale terminals in Cleveland supermarkets are a step toward a cashless society.

constructive way, they should be aware of possible consumer reluctance to embrace electronic fund transfer systems."

Most people are fairly well satisfied with the bank and credit card system as it is and consider checks convenient and reasonably priced, says William Moroney, a spokesman for the American Bankers Association.

"We've spent a ton of money over the past 100 years trying to tell people that checking accounts are really great," Mr. Moroney adds. "Only three quarters of the people in the country use them. We've spent 20 years and another ton of money telling them that credit cards are the best thing since sliced bread. Yet only about 25 percent of the families in the country use credit cards."

"It's going to take time trying to get them to do their business without credit cards or checks."

\$184 billion, more than 18 percent of total assets. Foreign branches help sell U.S. goods and services to foreigners, service operations of U.S. business abroad, and facilitate investment.

In return, foreign banks, exempt from Federal Reserve Board regulations, have been expanding in the U.S., particularly in the international trade centers of New York, Chicago, Los Angeles, and San Francisco. Their total assets in this country stood at \$76 billion at the end of 1976.

Because future legislation may cut a foreign bank's competitive edge by barring multiple-state branching and requiring federal deposit insurance—such a bill passed the House in April—many foreign bankers hope established operations will be "grandfathered" in.

"Banks are considered so vital to the

social welfare that governments take special steps to see that they are well-run, healthy, and reasonably prosperous," says Mr. Mitchell.

"FDIC insurance reassures depositors, and the Federal Reserve stands as their lender of last resort. Also, state and federal regulatory agencies periodically make independent checks of their managements, earnings, and assets."

The shelter of regulation

Some of the regulation which has limited competition between banks and thrift institutions may be ending. One long-standing issue is Regulation Q, which gives a quarter of one percent interest advantage to federal savings and loan associations and other thrift institutions. This differential, which has been in effect since 1933, ostensibly is

to prevent savings deposit rate wars.

"Banks have been racing against this handicap for years and have usually been able to hold their own," says A. A. Milligan, president of the American Bankers Association as well as president of the Bank of A. Levy, headquartered in Oxnard, Calif. "The gap is becoming more important because thrift institutions are getting more and more powers."

"No longer can banks rely on additional powers like checking accounts to overcome the handicap of the interest rate gap. State by state, regulation by regulation, thrifts and credit unions are gaining more powers and new momentum."

The U.S. League of Savings Associations disagrees: "Ending the differential will mean the end of private financing of

CREDIT CARDS: Great Strides Yet to Be Made

The now ubiquitous credit card came into limited use shortly before World War I when some retail firms began issuing slotted metal cards to their customers.

Today bank-issued plastic cards provide a multipurpose line of credit to more than 60 million Americans. Cardholders use the cards to charge all the common goods and services and some uncommon ones—travel in Russia, funeral expenses, and hospital delivery room services, for example.

In 1977, Americans used Master Charge, with 47.8 million cardholders, and Visa (formerly BankAmericard), with 44 million cardholders, more than 876 million times.

The average sale was a little more than \$27. The average balance upon which bank cardholders paid interest was \$384. And the percentage of cardholders having trouble making payments dropped to just under three percent. The bank cards, as well as those of American Express, with 8.8 million cardholders, Diners Club, with 3.2 million, and Carte Blanche, with 823,000, can be used at millions of locations worldwide.

Cards issued by department stores and oil companies are also widespread. Sears, Roebuck and Co. has the most popular single-firm shopping card in the world, with 47 million in circulation.

The most notable recent bank card development came in 1976 when banks that were members of either the Master Charge or Visa system were allowed to offer the competing card. Of the 20 largest banks, only three have not "gone dual," and those three don't issue any cards. Some observers say duality could eventually lead to a merger of the two systems.

The near future looks bright for credit cards. Dee W. Hock, president of Visa U. S. A., Inc., says the bank card industry has reached less than five percent of its potential and predicts multipurpose cards like Visa will become "a worldwide device for the exchange of all forms of value wherever stored."

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home ownership as we know it. . . . Without interest rate ceilings and the differential, savings associations will be unable to attract the money needed to finance home purchases."

Looking at a future without Regulation Q, the league, in a study titled "Savings and Loan Association Needs in an Unregulated Savings Market," concludes S & L's would have to become diversified financial centers to compete successfully with banks.

George B. Preston, chairman of the Fidelity Federal S & L, of West Palm Beach, Fla., who chaired the study, says the necessary changes would include new investment powers and authorization to offer consumer credit, credit cards, and checking accounts.

S & L's strong in 1977

Presently, savings and loans finance approximately three fifths of home mortgages. Home mortgage loans, reflecting a near-record year for housing starts, topped \$107 billion in 1977. This was a 36 percent increase over 1976 and a new record. At the beginning of 1978, the more than 4,800 S & L's, with their 11,800 branches, had assets of \$459 billion.

Norman Strunk, executive vice president of the league, says mortgage activ-

ity this year won't be as strong as in 1977. "We expect that savings flows will be down somewhat in 1978," he explains. "That will make money a little tighter and a little more expensive."

If Chairman Robert H. McKinney of the Federal Home Loan Bank Board, the independent federal agency that regulates the home loan industry, has his way, urban lending will be the number one priority for new S & L loans.

"I believe urban lending presents one of the greatest challenges and business opportunities of our time," says Mr. McKinney.

Wherever new loans are placed, the S & L industry believes the day of the fixed-rate mortgage has passed and the time for flexible rates has arrived.

The League of Savings Associations is urging state regulators to allow variable rate mortgages—now available in California—in their states. It also is pressing for renegotiable mortgages and graduated payment mortgages.

Credit union growth

While commercial banks and savings and loans eye each other warily, credit unions, although relatively small, are taking a growing piece of the action.

The Credit Union National Association, Inc., of Madison, Wis., says the

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Batten, New York Stock Exchange chairman, says the electronic trading linkage, when completed, will give investors "a better opportunity to obtain the best price available within the system—for any stock at any time."



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nation's 22,400 member-owned non-profit credit unions had assets of \$54.1 billion last year, up \$9.2 billion from 1976. The credit unions had 36 million members, double the number of a decade earlier, CUNA says.

Jim Williams, CUNA's chairman, says the principal task ahead for credit unions is to remain competitive. Founded to provide cheaper credit and encourage savings among individuals sharing a common bond such as employment, credit unions last year were authorized for the first time to offer long-term mortgage financing and time certificates with interest rates topping what banks and other thrift institutions can pay. This February, they gained the authority to offer check-like share draft accounts.

The competition from share drafts, a

service already offered by more than 1,000 credit unions, so alarmed commercial banks that the American Bankers Association filed, and lost, a court suit to stop use of the drafts.

A few credit unions have invaded another bank stronghold—credit cards. A growing number of credit unions are offering VISA cards, with top interest rates of 12 percent on unpaid balances, to gain a greater share of the consumer credit market.

Buy now, pay later

Since 1950, the total amount of consumer installment credit for items such as automobiles and furniture has multiplied more than 14 times, from \$14.7 billion to roughly \$216 billion. The bulk of the debt—48.6 percent—is held by com-

mercial banks, while 20.3 percent is held by finance companies, 17.1 percent by credit unions, and 9.8 percent by retailers. The remaining 4.2 percent is split among automobile dealers and other merchants, S & L's, and the nation's 473 mutual savings banks.

The market share of finance companies, 35.9 percent in 1960, has been eroded by competition from bank cards and credit unions.

S. Lees Booth, chief economist of the National Consumer Finance Association, a Washington-based group representing consumer installment credit companies, says finance companies will concentrate more on large personal loans and educational loans in future years in addition to the traditional auto and appliance loans.

A LINK WITH THE PAST



Since 1784, the Bank of New York, now the nation's 20th largest bank, has operated from the financial district.

Strolling down the canyons of Wall Street, it's easy to miss the first bank to make a loan to the newly formed United States of America. Founded in 1784, and located at 48 Wall Street since 1798, the Bank of New York is the oldest bank in the country still operating under its original name.

One of the bank's founders and charter stockholders was Alexander Hamilton, who, more than any other single individual, laid the groundwork for today's American banking system.

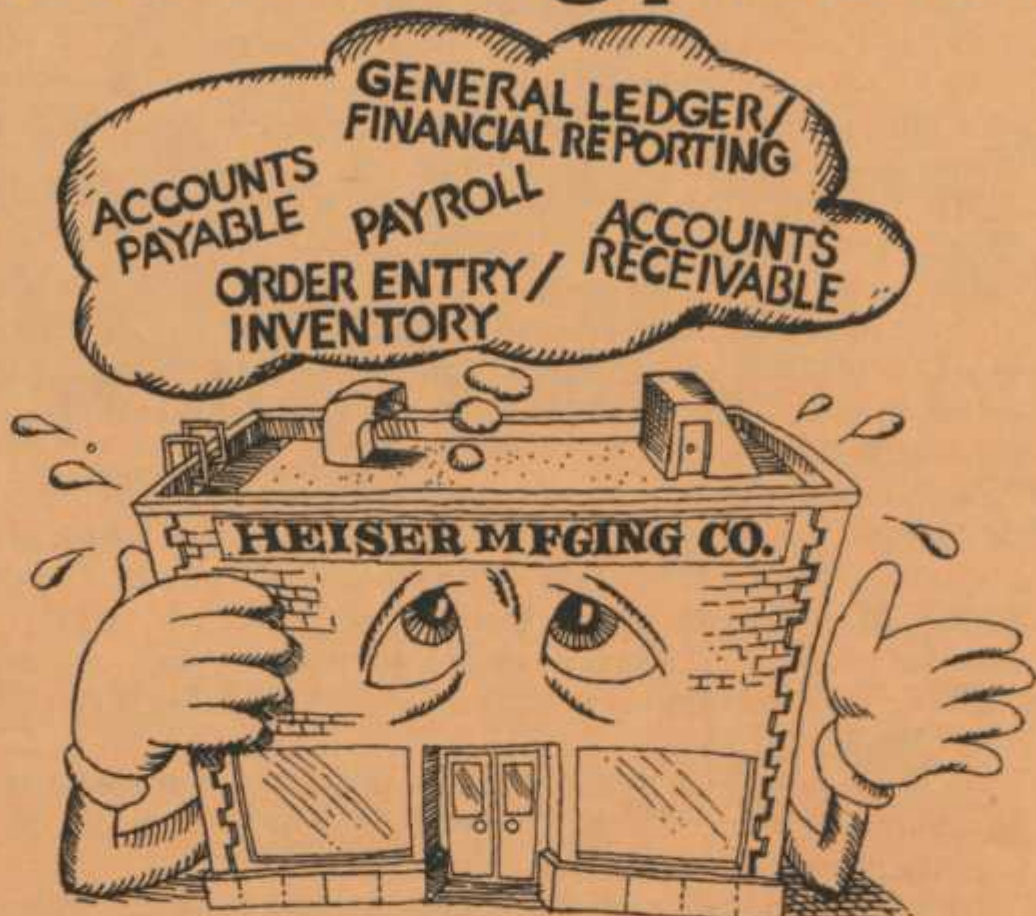
Hamilton was the driving force behind the first attempt to establish a central bank for the country.

The Hamilton-proposed Bank of

the United States, which operated from 1791 to 1811, and a similar institution which operated from 1816 to 1836, acted both as the federal government's fiscal agent and as a commercial bank. The nation had no central banking authority from 1836 until 1913, when the Federal Reserve System was established.

Today there are close to 5,700 national banks and more than 1,000 state-chartered banks in the Federal Reserve System. The state-chartered Bank of New York, with assets of more than \$6 billion, ranks as the 20th largest commercial bank in the country.

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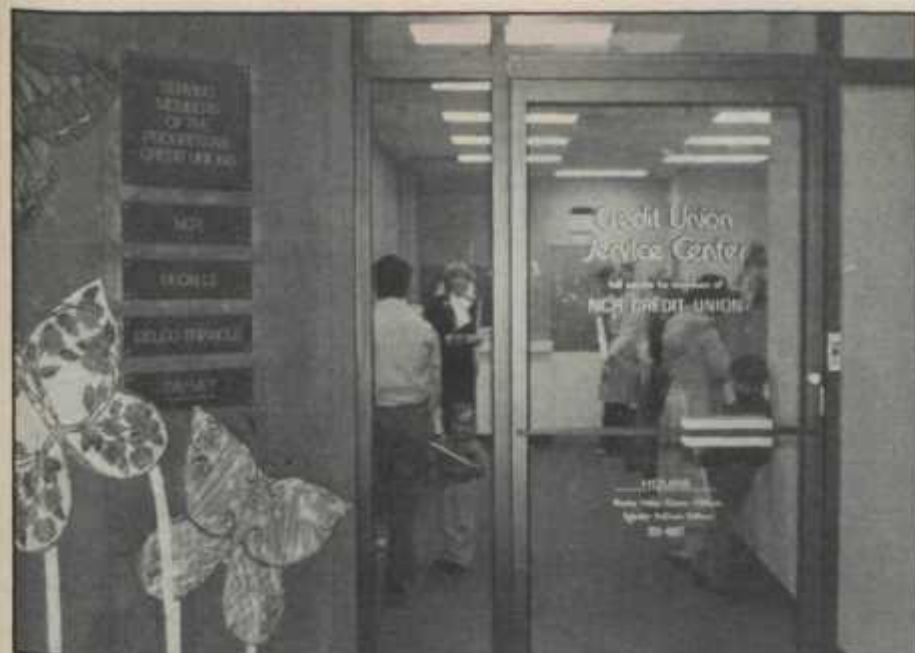
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Credit unions often cooperate with each other. In Dayton, Ohio, this center has an automatic teller serving members of four credit unions.

Just like less regulated industries, the profits for financial institutions may drop as competition accelerates.

A study by Frost & Sullivan, Inc., a New York-based international market research firm, states: "There is a trade-off between profit and competition in banking. No industry can operate in a highly competitive environment while at the same time maintaining a comfortable profit margin."

The report adds that mergers can be expected to reduce the number of banks and of thrift institutions, improving profit margins.

Interest-bearing checking

Interest-bearing checking accounts, which probably will be offered by all depository institutions in the next few years, may prove a mixed blessing.

Though S & L's and credit unions say they need NOW accounts and share drafts respectively to stay competitive with full-service banks, all of them will look for ways to recoup the cost of the interest payments.

For example, charges for check processing by banks may increase. And because interest payments are taxable, small businesses and individuals who maintain low balances may find little advantage to checking accounts that pay no more than five percent interest.

Two other trends:

- Pension fund investment is tilting toward corporate bonds and government securities. Private pension fund managers, who are responsible for portfolios that total \$250 billion, "have been restructuring their investment holdings to

give greater emphasis to fixed income obligations," says Bankers Trust Co., of New York.

Bankers Trust says insurance companies are moving along similar lines, concentrating investments on the corporate bond market and commercial mortgages.

- Financial planning for individuals and small businesses will increase. The popularity of this service, which considers the individual's entire financial picture, has been noticed by the securities industry, which has been scrambling for new revenue sources.

For example, the securities firm of Drexel Burnham Lambert asserts that financial planning is "the fastest growing area of the business."

A cohesive industry

Predicting the future for the financial industry is risky indeed, but Donald T. Regan, chairman of Merrill Lynch & Co., the nation's largest securities and investment firm, says:

"People still think in terms of the banking industry, the insurance industry, savings institutions, or credit card companies. I believe we must start seeing this industry for what it really is—a cohesive financial services industry."

In any event, because of the changes now going on, customers can look forward to favorable interest and loan rates and more services becoming available.

Competition, with a vengeance, has come to the financial services industry. □



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Edgar Hillsman says a building's inside is more important than its outside, and he emphasizes beauty as well as efficiency in the working environment.

An Inside Look at Interior Design

Edgar L. Hillsman believes a business should put its best face forward. "Front doors are most important," says Mr. Hillsman, who founded his own firm in Atlanta, Ga., to design corporate and institutional office interiors.

"The front entrance conveys the initial impression of a firm's identity, its image. The entrance has to tell the story—what a firm wants to say to the public. Then, when you open the door, the story should be continued on the inside."

Mr. Hillsman is no far-out eccentric, obsessed with the latest and gaudiest in op-art decor, bent on superimposing his ideas on every office. He analyzes each client's form of business and depends on function—how a particular office works—to govern the use of space.

"Before we even get to aesthetics," says Mr. Hillsman, "we ask a client: What does your office staff have to do? How does your office function? The cost of space today is unbelievable; wasted space is wasted money."

"We want the design layout to be efficient. We want to cut the amount of time an employee spends running back and forth to the copying machine, which always seems 48 miles away, or fetching files. We work out the most efficient flow

of work and paper. What good is a pretty interior if it doesn't work?"

Mr. Hillsman prefers the straight, clean lines of contemporary design, but for clients whose tastes tend to the traditional, he will create an eclectic mixture. Whatever the mood, Mr. Hillsman always uses original pieces of art.

"We educate our clients as to why they should spend money on good, original art," says Mr. Hillsman. "That's not always easy. Some business people are used to spending only \$10 for a little bit of color here and there."

"But more and more corporations are buying original art. We explain it is a good investment. Art doesn't depreciate, it appreciates. A business could end up with a fortune hanging on its walls."

People are a big factor in the design equation, Mr. Hillsman emphasizes. His firm tries to involve a client's employees in the whole process of revamping their working environment, from educating them on modular, open-plan offices to selecting colors and furnishings.

"Piped-in music is a touchy subject," says Mr. Hillsman. "Even in a small staff, I don't think you could find three people with the same taste in music. But if a client wants music, he gets music."

How does a person end up an interior designer? "When I was eight years old," says Mr. Hillsman, "I knew I wanted to be an architect. As I got older and found out how long architects had to attempt

to make a living before doing so, I decided I was not so interested. Anyway, to me, the interior of a building is much more important than the exterior. People spend much more time inside than they do outside." •

Ex-Professor Teaches How to Burn Coal

Ira Kukin took a sabbatical from teaching chemistry at Harvard University—26 years ago. Today he is teaching the utility industry how to burn coal with the most efficiency and the least pollution.

Dr. Kukin left Harvard to do research at a large company, then took a job at another company, and finally founded his own firm, the Apollo Chemical Corp., in Wippany, N. J. Apollo Chemical started out in 1963 making fuel stabilizers and corrosion inhibitors for petroleum products. From there, it moved into combustion catalysts for No. 6 fuel oil, which powers about 14 percent of the nation's manufacturing and energy generation facilities. And that led to an intimate relationship with boilers.

"Boilers are a necessary evil in manufacturing," says Dr. Kukin. "But in the utility industry, the boiler, which might cost \$300 million to erect, is the very heart of the operation. The boiler is what makes money for the utility."

The dilemma is that boilers wear out, and that a utility cannot afford just to chuck the aging boiler on the trash heap.

"A five or ten-year-old boiler will not have the same megawatt output or reliability as a new one," says Dr. Kukin. "We decided to study chemicals and techniques that would increase boiler life span and maintain efficiency."

That decision coincided with two crises that precipitated a burgeoning reaction in the energy field. "With the onset of the pollution scare, followed by the oil shortage and price increases, we happened to be in the right place at the right time with the right background. We jumped into coal-fired boiler technology."

While complex in operation, the technology is simple in explanation, at least nonscientifically. To comply with the Clean Air Act, utilities must remove 99.5 percent of the pollutants produced by burning coal. One method is to use electrostatic precipitators, which are several

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Ira Kukin's goal: better use of coal.

stories high and have wires that are charged to collect particles of fly ash that are oppositely charged.

Many companies have switched to low-sulfur coal, reducing the sulfuric by-products, all of which are nasty to lungs and machinery alike. But burning the low-sulfur coal results in high particulate pollution, which existing precipitators could not cope with. Dr. Kukin and Apollo Chemical developed a product called Coaltrol LPA (liquid precipitator additive) that improves the capability of the electrostatic field.

"The cost is about 35 cents a ton," says Dr. Kukin, "compared to the millions of dollars it would cost to retrofit the boiler with hardware like scrubbers, baghouses, or additional electrostatic precipitators. We generally estimate that, for every dollar a utility spends on chemicals to improve boiler operation, it will get \$4 in return."

In addition, Coaltrol LPA reduces corrosion, lengthening the life of the boiler, Dr. Kukin says.

Apollo makes other products and processes that repress pollution and expand efficiency. The latest is a dual injection system called Gemini. It agglomerates the fly ash fines, those tiny particles suspected of being carcinogenic, so that present precipitators can collect them. (If you're wondering what is done with all the fly ash collected, it is used as a filler in making cement. In contrast, the sodium sulfite that scrubbers produce in removing sulfuric gases is a gooky sludge that must be reprocessed to be useful.)

Dr. Kukin wastes no time debating the wisdom of burning coal to generate power, or what will replace this resource when it is depleted.

"Alternate sources of energy like solar and wind power are still in the Tinkertoy stage," he says. "They will not be developed as rapidly or completely as idealists hope or anticipate. Even nuclear energy has suffered a few setbacks. For the present, coal is basically the name of the game." •

Thrill for Sale: Auto Racing at \$1.35 a Lap

Robert A. Petrallia acts like a kid with a new toy. That's because his business centers on a toy for grownups. Ten feet long and costing \$7,500 to build, it is an adolescent version of the Formula One racing cars that such Grand Prix drivers as Mario Andretti tool around in on the streets of Monaco.

Once a senior partner in a law firm, Mr. Petrallia is now president of Condor Development Corp., a company he formed with several like-minded businessmen to build and buy Grand Prix-style racetracks where adults can drive three-quarter-size racing machines against the clock.

"There is a certain element of kid in all of us," says Mr. Petrallia. "I had reached the ultimate level of frustration in my law practice. I was being smothered by success. I wasn't enjoying what I was doing, and I didn't see a lot of my family."

Now all that is changed. The change began when Mr. Petrallia helped a Grand Prix-style racetrack company with its real estate operations. He fell in love with racing-car driving after a few laps around the company's track.

"It's pure escapism," says Mr. Petrallia. "You can go out and enjoy physical activity without having to spend three weeks doing push-ups. It's emotional therapy, a psychological lift. Mind and body work together. You're competing against yourself in a simple activity, and

it just drains away all the frustration."

The competition among owners of Grand Prix-style racetracks is keen, but limited. There are only about 35 tracks across the nation, and only one other firm is developing the concept as thoroughly as Condor, Mr. Petrallia's company. Condor, which is based in Convent Station, N. J., is operating a track in Colton, Calif., and plans to open several tracks soon in Florida and New Jersey. It also has selected sites abroad.

Scaled-down Grand Prix racing is not expensive—\$1.35 a lap, with a minimum of two, for licensed drivers only. And it is profitable. "About 70 percent of that fee is profit," says Mr. Petrallia, "if the track is run efficiently, doing an average 40,000 laps a month."

"The car is the heart of the business. It is the ultimate racing machine that the public can enjoy, but it is built like a Sherman tank, capable of withstanding almost anything."

The cars Condor uses are equipped with an engine of only 40 horsepower—a small fraction of the power in a real Grand Prix car—and, also unlike the real thing, they do not have a stick shift. They could go as fast as 120 miles per hour but average 35 to 40 because of the cleverly constructed track. The track demands skill, not speed, as the driver tries to negotiate its half-mile network of S turns, 180-degree hairpins, double apexes, and chicanes in just over half a minute.

For the driver, sitting only inches off the ground and subject to heavy gravity forces as he takes the turns, the sensation is as close to the real thing as an imitation can be.

"Professional racing is the greatest spectator sport in the world," says Mr. Petrallia. "It is also the least participated in, and because of that, it has a certain mystique. At our tracks we set up an atmosphere of professionalism, so that you are taking part, not just in racing, but in the whole unique world of racing. Walter Mitty never had it so good." □

Robert Petrallia finds escapism is good for the mind, the body, and his business.



The World of Industry

continued from page 30F

oil containing high amounts of sulfur.

Utilities will be producing enough sludge annually by 1985 to spread one foot of the waste over 90 square miles, the Electric Power Research Institute estimates.

So the institute has been looking into economical and environmentally acceptable ways to dispose of the problem. It has found two fixation methods, developed separately by IU Conversion Systems, Inc., of Philadelphia, and Dravo Corp., of Pittsburgh, to draw water out of the sludge. The result is environmentally acceptable for landfill.

Using the Dravo technique, the sludge is added to a product named Calcilox which is derived from blast furnaces. The IU method, called the Poz-O-Tec System, mixes the sludge with a combination of lime, fly ash, and other additives.

"These processes give the utilities a way to dispose of sludge in an environmentally sound manner," institute spokesman George Preston says.

The fixation processes add to utilities' costs, however—an estimated \$6.90 per dry ton of sludge if the dis-



Rubbing beats cutting when it comes to stripping sweet corn of its kernels, says the Department of Agriculture, which has developed a new method using a rotating drum (above). Currently the kernels are cut off the cob, which doesn't get all of them. The drum device gets all the kernels.

posal is in ponds and roughly \$2.50 if the sludge goes into landfills. •

Nuclear Power Scores Big Gain

Approximately 12 percent of all electricity produced in the U.S. last year came from nuclear power plants, an increase of nearly 31 percent over 1976, according to President Carl Walske of the Atomic Industrial Forum. Forum statistics show that:

- Use of nuclear energy saved 120 million tons of bituminous coal, 2.6 trillion cubic feet of natural gas, and 425 million barrels of oil.

- A kilowatt-hour generated by a nuclear plant was about a half cent cheaper to produce than a coal-generated kilowatt-hour.

- Nuclear power's economic advantage represented a cost saving in 1977 of about \$2.5 billion.

"What's significant beyond these statistics," Mr. Walske says, "are two things: One is that the enviable public

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safety record of nuclear energy continues intact. . . . The other is that nuclear power is well on its way to becoming, second only to coal, the leading source of electricity in this country by the early 1980's." •

Motor Vehicle Traffic Rises

America's streets and highways are being well-traveled, according to the Federal Highway Administration. It says that motor vehicles racked up a total of 1.466 trillion miles last year, a four percent increase over 1976.

The agency has made no breakdown of travel by motor-vehicle category for 1977. But it says that in 1976, a total of 110.4 million passenger cars traveled 1.074 trillion miles, getting approximately 13.72 miles per gallon.

Motorcycles were next in line with 22.5 billion miles, and they averaged 50 miles per gallon. Commercial and school buses traveled nearly 5.8 billion miles and averaged 5.98 miles per gallon.

Meanwhile, 27.7 million trucks traveled nearly 3.07 billion miles and averaged about 8.53 miles per gallon. □



Dr. A. George Gols

How Industries Will Fare in the Years Ahead

Foresight and flexibility will be the keys to success, an expert says

NOT ALL businesses will survive the anticipated economic turmoil of the next ten years, and some will be more influenced by economic swings than others.

Which businesses will make it?

Dr. A. George Gols, senior economist with the management consulting and research firm of Arthur D. Little, Inc., and director of its management economics section, says it will be only those with the foresight and flexibility to change with the economic tide and yet maintain the ability to meet consumer demands.

After looking at 220 industries and charting their growth potentials, he estimates that real annual growth for all

businesses should average somewhere around 3.5 percent in the 1980's.

His study charts individual industries' growth potentials along a scale ranging from zero to 14 percent. Industries given the highest growth potential into the 1980's—those hovering around the 14 percent mark—include manufacturers of certain chemicals, insulation materials, computer and dental equipment, and oil field and mechanical measuring instruments.

Those near the zero growth mark, Dr. Gols says, include dairy food producers, confectioners, iron ore miners, leather tanners, and ceramic wall and floor tile manufacturers.

Variations in the growth rate estimates are caused by different factors. For example, Dr. Gols says increasing foreign imports, especially synthetics, tend to hurt the leather tanning industry.

Changed population trends and consumer dietary habits are causing a decrease in demand for candy and dairy products, he says.

Plastics in autos

The amount of buying and selling that takes place between industries is another factor. For example, the automobile industry relies heavily on plastics manufacturers for parts, since it is replacing steel with lighter-weight materials in an effort to achieve greater fuel efficiency. Dr. Gols predicts that the fabricated plastic products industry will grow at a rate close to ten percent.

"Manufacturers who supply materials to other industries need to be aware of trends and growth rates anticipated in those other industries," Dr. Gols says.

Individual industries' well-being will also depend on the overall U.S. economic picture, of course, and Dr. Gols sees no economic weakness in the short term.

Fear of a slowdown will actually insure the economy against trouble, Dr. NATION'S BUSINESS • JUNE 1978

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Gols says. "With pessimistic predictions coming at them from all sides, businessmen are not apt to overextend themselves," he explains. "In being prepared for the possibility of a slowdown, they are keeping their inventories reasonably lean and improving their balance sheets and cash positions."

Stable sales

Noting improvement in sales following the severe winter and the end of the coal strike, Dr. Gols predicts sales will level off and stabilize in the fourth quarter.

He predicts 2.5 percent real growth in the gross national product next year and an unemployment rate of 6.5 to seven percent.

Dr. Gols also predicts that in this year and next:

- Inflation will continue to rise, exacerbated by production-cost increases due to government programs such as new clean air controls for business.
- The Federal Reserve Board will tighten up some of its monetary policies, with interest rates rising as a result.
- The administration again will have to review economic stimulus policies.

"The economic situation will pose an urgent problem for the administration in 1979, the year preceding the presidential election," Dr. Gols says. "The challenge will continue to be how to use conventional fiscal and monetary tools to bring the economy to a lower inflation and unemployment track. This is going to lead to a reshaping of the federal economic stimulus program and certain elements of our incomes policy."

Long-term outlook

The long-term outlook for manufacturers will depend on their ability to position themselves successfully within the phases of the economic cycle and international trade development, Dr. Gols observes.

"Good financial performance may well depend on being able to avoid the costly impact of excessive inventories and forced liquidation of stocks, particularly in the next five years," he adds.

"Strategies which enable manufacturers to react quickly in production, purchasing, and stock building will be essential in order to minimize the adverse effects of another downturn and, perhaps even more importantly, to maximize benefits in growth phases of the business cycle." □

Zinc Industry Is Awash in a Flood of Imports

WHILE the consumer is enjoying low prices for zinc, zinc producers are warning of dire consequences unless curbs are placed on excess imports. The most serious consequences: much higher prices and unreliability of supply. Also, there is the matter of jobs.

Employment in the zinc industry has declined more than 40 percent since 1970, and layoffs continue to this day as a result of an import glut, says Seth M. Bodner, president of the Lead-Zinc Producers Committee.

The U. S. International Trade Commission is slated to rule this month on a request for relief filed by six companies which are members of the Washington-based committee. The committee, composed of eight companies which collectively have more than 90 percent of U. S. capacity for slab zinc production, says the petition is directed only against imports of slab zinc beyond those needed by industry to supplement domestic capacity.

Ample supplies, low prices, and new production facilities coming on stream this year have combined to create a buyer's market for zinc. Meanwhile, U. S. producers are bending under the weight of an oversupplied market, mounting financial losses, and growing uncertainties about the future.

Shutting industry down?

William E. Flaherty, executive vice president of the Natural Resources Group of Gulf & Western Industries, Inc., warned the International Trade Commission at hearings in March: "If we do not get relief from imports, it will not be a case of one or two more domestic producers going out of business; it will be a case of shutting down the entire United States zinc industry."

The petitioning companies are AMAX, Inc.; ASARCO, Inc.; Anaconda Co. (part of Atlantic Richfield Co.);

Bunker Hill Co. (Gulf Resources & Chemical Corp.); St. Joe Zinc Co. (St. Joe Minerals Corp.); and New Jersey Zinc Co. (Gulf & Western).

Simon D. Strauss, vice chairman of ASARCO, says that in 1970 there were 14 operating zinc refineries in this nation with an annual production capacity of more than one million tons of slab zinc. Today there are only six domestic refineries in operation with a production capacity of 600,000 tons.

"To retain what is left of the domestic zinc industry, to restore financial viability to an industry running in the red, and to increase domestic capacity—in short to survive as a vital component of the U. S. industrial scene—we filed to obtain relief from excess imports under the Trade Act of 1974," says Mr. Bodner.

Heavy inventories

At the beginning of 1978, zinc stocks in U. S. producers' hands amounted to 118,000 tons, and 87,000 tons were held by consumers. Merchants, traders, and others held substantial additional amounts in the country. Economic consultants to the Lead-Zinc Producers Committee estimated those stocks amounted to 158,000 tons. Importers of Australian zinc, appearing in opposition to domestic producers at the March ITC hearings, estimated those stocks at 188,000 tons.

Thus, estimates of stocks in commercial hands ranged from 363,000 to 393,000 tons as the year began, equal to some four months of total U. S. slab zinc consumption. Those are very large stocks, says Mr. Bodner.

General imports of slab zinc last year amounted to 577,000 tons. In the fourth quarter of 1977, slab zinc imports were at an annual rate of 658,000 tons. January and February, 1978, also showed a high import level, so that during the five months from October, 1977, through February, 1978, imports



Production at ASARCO's Corpus Christi, Texas, plant was cut in half in late April due to domestic market conditions.



Workers at the Palmerton, Pa., plant of New Jersey Zinc Co. pour slab zinc for shipment to alloyers and galvanizers.

were at an annual rate of 655,000 tons.

Domestic slab zinc production, which amounted to some 464,000 tons in 1977, when industry ran far below capacity, has slowed further this year.

During the first quarter, the American Bureau of Metal Statistics reports, production was 102,575 tons, which was 26 percent below the same period in 1977.

Prices plummet

James L. Broadhead, president of St. Joe Zinc Co., says that his firm's smelter at Monaca, Pa., has been operating for the past nine months at 65 percent of capacity or less. This year, he estimates, his company will lose \$20 million if prices and shipments remain at current low levels.

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Producer prices fell from an average of more than 36 cents per pound in the first quarter of last year to 29 cents in the first quarter of 1978.

"The impact of this drop in prices came home to us very vividly when we found that it would cost us ten cents a page to copy briefs and other materials to file with the trade commission," says Mr. Bodner. "Each copy of a page was going to cost one third the current price of a pound of refined zinc! Those figures probably best tell the story of our troubled metals industry."

Mr. Bodner notes that the apparent easy availability of zinc at low prices dulls consumers' memory of "how few of today's eager foreign sellers were to be found and how zinc prices based on London Metal Exchange quotations soared" in the high demand years of 1973 and 1974.

Low usage forecast

When the Commerce Department issued estimates for 1977 and 1978 slab zinc consumption, 1977 consumption was forecast to be 1,150,000 tons, declining to 1,140,000 in 1978. Actual 1977 consumption was reported at 1,134,000 tons by the U.S. Bureau of Mines. More recently, Commerce has reduced its estimate for 1978 consumption of slab zinc to below 1,100,000 tons.

Many in the industry now see actual 1978 and 1979 consumption at similarly low levels. With usage of zinc-based die castings in the auto industry declining sharply, notwithstanding a major selling effort called Operation Detroit, this pessimism seems all too warranted.

At a recent meeting of the Zinc Institute in New Orleans, G. Fred Bolling, executive engineer of vehicle materials development and planning of the Ford Motor Co., detailed zinc die casting's fall from grace.

With current usage down to 22 pounds per car, he anticipated a further decline to 14 pounds by 1980 and to eight pounds per car by 1990 as the relentless pressure to reduce weight and increase fuel economy persists.

Recovery of the zinc market will depend largely on increased industrial construction, on new and expanded uses for the metal in housing, and on such eventual market possibilities as the zinc-nickel oxide battery. Construction will fluctuate with the overall economy, subject to its uncertainties and to the impact of government policies on investment expansion, and the new zinc-nickel battery market is too far off to be of much help to producers now struggling to survive.

New refinery

U.S. zinc refinery capacity is due for a major expansion this fall when a new 90,000-ton-per-year refinery in Clarksville, Tenn.—a joint venture of New Jersey Zinc and Union Minière, a Belgian firm—comes into production. This addition will increase total U.S. capacity for slab zinc production to nearly 800,000 tons. But how much of this capacity will be available if today's prices and low operating rates continue?

"Even Clarksville cannot possibly operate at a profit at today's prices," says Gulf & Western's Mr. Flaherty.

James H. Halley, a vice president of Gulf Resources & Chemical Corp., which includes the Bunker Hill Co., warns: "As bad as 1977 was, there seems little doubt that 1978 will be worse in the absence of relief from excessive imports."

Lead-Zinc Producers Committee President Bodner concludes that, without a reasonable balance between supply and demand, further drastic curtailment of the U.S. industry appears inevitable.

"At that point," he says, "foreign producers will increase their control of supplies to the U.S. market. Should a rapid growth in overseas consumption develop, consumers could once again find themselves riding the London Metal Exchange price roller coaster for what materials they can get, and the United States could be totally at the mercy of an interruptible foreign supply." □

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The Spider Web Ensnaring State and Local Governments

By William Kroger

Federal grants to states and localities have jumped more than fourfold in ten years. But there are a lot of strings to all that munificence



Virginia Gov. John N. Dalton and a constituent discuss issues involving the state. One issue centers on federal control over state programs.

WITH GOVERNMENTAL problems increasing in complexity in recent years, the trend has been to rely more and more on Washington to solve them, or at least to provide money to solve them.

As a result, annual federal grants to states and localities jumped from \$14.4 billion in 1966 to \$67.6 billion last year.

Federal largesse helped state and local governments, as a whole, show a budget surplus last year, as against deficits in the past.

But no federal funds are ever turned over to anyone to spend without strings attached. Along with federal aid comes a host of federal controls and federal requirements. Which brings up questions:

- Do state and local governments like this arrangement?
- Is it effective in resolving problems?
- What is the impact on the state and local governments?
- Will the flow of federal dollars increase or diminish?

To get the answers, NATION'S BUSINESS interviewed a number of state
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Strings attached to federal grants have "enveloped and neutralized many state and local governments, robbing them of effective control over programs," says Sen. Paul Laxalt (R.-Nev.). He calls the strings a "spider web."

governors, members of Congress, and other public officials.

"The grip which Washington now has on state and local governments is subtle," says Sen. Paul Laxalt (R-Nev.), a former Nevada governor. "Federal strings appear in the form of intricate bureaucratic directions on how to run the program offered. Actually, many of the strings are encumbrances which came from Washington only after a local entity had accepted a program and had grown dependent on it.

"This happened because, as the big government philosophy took hold and grew, the federal strings became more numerous. These strings eventually were woven into a federal spider web which has enveloped and neutralized many state and local governments, robbing them of effective control over the programs."

Heralded job program

An example of what Sen. Laxalt has in mind is the Comprehensive Employment and Training Act of 1973. CETA was designed to accomplish two things: consolidate three programs then in existence (one had expired, but was being continued under temporary measures) and decentralize federal and even state control over attempts to solve unemployment problems within communities.

Basically, localities would receive funds and other assistance so they could combat their own employment problems.

As it turned out, however, the program did not work that way.

Under the public service employment portion of the law, governments were to select unemployed and disadvantaged individuals, place them in federally subsidized jobs with emphasis on counseling and job training, and then try to pick up 50 percent of the participants in unsubsidized positions.

Also, job-training programs could be set up in the private sector to reimburse employers for training costs, amounting to as much as 50 percent of the participants' wages.

Shortly after the program began, America was hit with a recession, and unemployment climbed.

The ideal of helping the disadvantaged or hard-core unemployed lost precedence in the minds of congressmen and federal officials. Millions of other Americans had been thrown out of work, and word went out from Washington that those unfortunate citizens needed help. CETA was the logical vehicle.



As long as America's taxpayers "continue to look to Washington for security and for easy solutions to their problems, they will find their liberties eroding and our country's strength dissipating," says Sen. Jesse A. Helms (R-N.C.).



Sen. Harrison A. Williams, Jr. (D-N.J.), chairman of the Senate Human Resources Committee, does not expect the federal government's involvement in state and local government affairs to increase much in the coming years.

An emergency public service jobs title was added to the act, and local and state governments were directed—from Washington—to bring the unemployed on board.

The goal of bringing 50 percent of the CETA participants onto unsubsidized payrolls was nearly forgotten and—equally important—the idea of working with the private sector to cre-

ate job-training programs was abandoned in most places.

Instead, local governments took the easy way out. The local library that had always wanted a secretary but couldn't afford one finally got one, with CETA funds. The public hospital that had been trying to get an extra lab technician but had difficulty justifying the expense finally brought one



Sen. Howard Metzenbaum (D.-Ohio) says federal involvement was necessary where state or local governments could not afford to or would not address problems.



Delaware Gov. Pierre S. du Pont IV (left), conferring with Budget Director Nathan Hayward, says federal controls hamper the administration of his state.

into the fold, again with CETA funds.

Also, with the recession came a decline in local revenues. But CETA funds were available, and they were used. A study conducted last year by the American Federation of State, County, and Municipal Employees found that from 15 percent to nearly 33 percent of the workers employed by ten U. S. cities were employed through CETA.

Program wasn't working

The lofty ideal of helping those most in need had gone awry. Subsequent investigation also found that, in some areas, CETA funds had been misused to give jobs to political cohorts of those in power. Some governments had to return funds.

As the recession subsided and unemployment began to decline, Congress reexamined CETA and found that the program was not working as intended. So Congress set out to change the law.

But by this time, CETA was entrenched. Local governments were relying on CETA dollars to help their budgets. Secretaries, police officers, fire fighters, and lab technicians—workers numbering in the tens of thousands—were performing local government jobs while being paid with CETA funds. They were integral parts of local operations.

In addition, the 455 local and state governments with CETA programs had sizable CETA operations staffs paid by CETA funds. No exact count of CETA operations people has been conducted, but the Labor Department estimates there are 10,000 to 20,000 of them.

Since the inception of CETA, more than \$21 billion has been appropriated for its programs. Recently, about 900,000 U. S. citizens were participating in CETA programs, and in the summer months, when school-aged youngsters are added to the public service payrolls, the total increases to more than two million.

Political impracticality

It was clear to Congress, when re-evaluating CETA, that an abrupt change was politically impractical, if not nearly impossible.

So any change in the public service jobs portion of the law had to be subtle and spread over a period of time. This was attempted, and controls from Washington began to increase.

Now localities do not have that free hand envisioned in the initial act to solve their own employment problems. The shots increasingly are being called

from the nation's capital. Most of the public service jobs called for in the law, as now revised by Congress, must be in specialized programs to help those most in need.

People, who must be unemployed at least 15 weeks and be from lower-than-poverty-income families, are brought into the CETA program and trained in such special projects as insulating homes of the disadvantaged. This way, the federal government feels, the people eventually will learn jobs skills and be transitioned to unsubsidized employment.

But such specialized programs require creativity and careful planning. The Labor Department, which oversees CETA programs, mandated that governments receiving CETA funds have the new programs going full blast by March 1 of this year.

Not enough time

Richard G. Edwards, program coordinator of CETA programs in Texarkana, Ark., told NATION'S BUSINESS that Texarkana had only three months in which to create entirely new programs and to employ 238 additional people. "We lacked the time to do an adequate job," he says.

Timothy J. Monger, director of the Tippecanoe County, Ind., CETA program, says: "The biggest problem I had with the program was that it was intended to be a decentralized, flexible program, but that it has turned out to be very rigid."

Many other local officials would agree with Mr. Monger's criticism. But rarely do any of them say they do not want CETA funds. They have come to realize that CETA money is important, and they have bowed to that federal spider web discussed by Sen. Laxalt.

Who is responsible? Many people. Congress and the federal executive branch, in their attempt to solve the long-existing problem of helping the underprivileged and hard-core unemployed, perhaps were too zealous and unrealistic. A number of local governments abused the intent of the program. Also, the recession caused CETA's initial goal to be subverted to the larger goal of helping millions thrown out of work.

Up for renewal

The law expires this year, and Congress is expected to renew it. Officials of the Chamber of Commerce of the United States recently testified before congressional committees that business would like to see CETA operate as

it initially was intended—a flexible, decentralized program aimed at helping those most in need.

Not only do state or local governments which jump at federal aid find that federal strings may increase and tighten over a period of time, but they also find themselves in dilemmas if the federal government pulls back, leaving them to go it alone financially.

Finding the money

For example, three years ago, Delaware received federal Law Enforcement Assistance Administration funds to employ ten state police officers for a specialized program. This year, that program ends.

"The program influenced Delaware positively three years ago, but now we have to find the money to pay the salaries of those officers or cancel the program," says Delaware Gov. Pierre S. du Pont IV.

The salaries of the ten Delaware highway patrolmen don't add up to a large sum in relation to the governor's proposed \$529 million budget for the next fiscal year. But if the officers are

retained on the state payroll, a cut may have to be made in another area of the budget.

There is another option: Increasing taxes. But an official of the National Governors' Association says that in more than half of the elections lost by incumbent governors in recent years, the overriding reason was increasing taxes. So that option, politically, becomes a nonoption.

Gov. du Pont believes there is too much federal control over his state, and he is quick to point out that federal control, to him, includes the judiciary.

Impact of judiciary

"The federal court system has an enormous impact in Delaware, running our school system, our prisons, and hospitals," he says. "As a student of constitutional law, I don't see where those decisions are supposed to be made at the federal level."

Gov. du Pont notes that a federal court has ordered Delaware to build a new prison and that, under a federal court order, Delaware's New Castle County, which encompasses Wilming-

ton, had to merge 11 school districts into one as part of a desegregation measure.

Acting Gov. Blair Lee III, of Maryland, says that federal control over states and local governments is "big and getting bigger all the time."

He adds: "Ten years ago, we would have occasional correspondence with Washington. Now we have an office in Washington with six people in it."

Overlapping functions

The governor says the Department of Health, Education, and Welfare "requires us to form agencies over and over with overlapping functions. We may have an 11-member commission, and HEW may require a 15-member commission, with different members, to do the same work."

Virginia Gov. John N. Dalton also cites problems with HEW. The state has been directed "to institute a system of racially based numerical goals for students, faculty, and staff of its public colleges, and to give priority in establishing new programs to black schools," he says.

On Feb. 2, the federal government rejected, as inadequate, desegregation plans for Virginia's public colleges. HEW Secretary Joseph A. Califano, Jr., said he would give the state 45 days to negotiate an acceptable desegregation plan with HEW.

The Secretary threatened at that time to begin the process of withdrawing as much as \$75 million in federal education funds from the state if it did not produce a satisfactory plan.

Just over a month later, HEW and Virginia announced agreement on a desegregation plan.

Gov. Dalton does not take an unequivocal attitude toward all federal involvement in Virginia affairs—he favors some aspects of it and dislikes others—but he says there is no question about one thing: "Its impact is, to say the least, substantial."

He points out that "in 1976, federal dollars flowing to Virginia state agencies amounted to \$976 million.

"Our records indicate some 14,000 employees on the state payroll are paid from federal funds."

Another serious problem

Virginia is now facing a serious problem in the environmental field, as are all state and local governments, because of recent congressional and federal agency action. The problem involves compliance with the August, 1977, amendments to the Clean Air

EYES AND EARS FOR THE STATES

In the past ten years, as the federal government has reached out to control more governmental activities throughout the country, more and more states have set up Washington offices to look after their interests.

There are now 24 such offices. And, according to James L. Martin, director of state and local relations for the National Governors' Association, as many as six more states may open offices in Washington within the year.

The office staffs have various functions. A typical office, says Mr. Martin, serves as a one-stop information center on all federal-state issues, obtaining specific information for the state when needed.

Staff members can represent state officials in meetings, saving the state travel and hotel expense, and they can function as a full-time liaison with a state's congressional delegation.

Also, they serve as door openers and catalysts for private interests that are negotiating with state officials.

Mr. Martin points out that staff members act as eyes and ears in Washington for the states.

Two important functions are keep-

ing track of legislation and regulations that will have a direct impact on a state and tracking down sources of federal funds that may be available for a state's programs.

One official offers this example: "If a governor gives a high priority to improving the level of reading in his state's schools, the state office in Washington should be beating the bushes to get federal funds that can be used for reading-improvement programs."

It is not just states that have realized the growing importance of having representatives in Washington.

Local governments increasingly are relying on associations to represent their interests in the nation's capital, and in some cases two or three of them have joined to hire their own Washington representative.

Several large cities, such as New York, have their own offices in Washington. So do some branches of state governments—for example, the California Department of Education.

The federal maze is difficult to traverse for experts, let alone those who know little about Washington bureaucracy.

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Act. Basically, the amendments require that all geographical areas will be designated attainment, nonattainment, or unclassified, for the purposes of pollution control. If an area is unclassified or has been classified attainment just by a state, and no adequate pollution monitoring equipment is in existence in that area, any new firm wishing to move into the area would have to pay for the monitoring, which could be very expensive, before it could even apply for a permit. The monitoring must continue for a year.

If an area is given an attainment classification, many experts in the field say, it would not take much to make it a nonattainment area. In fact, they say, most areas of the country will be classified nonattainment as soon as monitoring occurs.

Crystal ball needed

The main difficulty centers on the nonattainment classification, experts say. In a nonattainment area, before a company can move into the area to set up operations, it must find a current facility emitting the same pollutant and either urge the facility to reduce its pollution at its own cost or pay for it to do so—even though the existing

facility is meeting present emission standards. The reduction must be in an amount greater than any pollution that would come from the new firm.

This also applies to any expansion of current facilities. In addition, an assessment must be made as to what associated growth will occur because of that new company—via new roads, new neighborhoods, increased usage of automobiles—and this, too, must be taken into account.

"If a new plant is going into a location, you have to look into your crystal ball and determine what impact there will be. I don't have a crystal ball that works that well," says John Daniel, assistant executive director of the Virginia Air Pollution Control Board.

Mr. Daniel says that, in the realm of attracting new firms to Virginia or urging current firms to expand, "I think we're out of business."

States also must have a federally approved plan by July 1, 1979, showing that their air quality will meet federal standards by Dec. 31, 1982, or the states will not be allowed to approve any new construction permits whatever. Also, the states will lose federal highway and sewage funds.

The Environmental Protection

Agency, which enforces the Clean Air Act, is evaluating its regulations in the light of the 1977 amendments.

As in other cases, the federal government will be calling the shots for state and local governments.

While it is easy to criticize the federal system, many say that good has come from federal involvement in lower levels of government.

Filling a gap

Sen. Howard M. Metzenbaum (D-Ohio) says that action by Washington was necessary in areas where state or local governments could not afford to address a problem, or where they simply had refused to do so.

"It's very simple to throw stones and criticize the federal government, and I enjoy doing it, but that does not solve the problem," he says. "If we abolish CETA, the Law Enforcement Assistance Administration, and many other programs, what will replace them?"

Many federal grant programs, he says, stem from the urban riots of the 1960's—riots which, he adds, might not have taken place if their underlying causes had been tackled at the state or local level.

Several of the governors interviewed



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cite benefits to states and localities from federal involvement in building highways and cleaning up waterways.

However, there seems to be a tendency today on the part of some state and local governments to be more wary of federal money and the strings that may be attached to it. Legislatures and state officials are beginning to ask: "What will federal money mean to the state in years ahead?"

Knowledge gained from past experience has shown many state and local officials that federal money is not given gratis. Even the much-lauded revenue-sharing program, which began in 1972, now has more strings than it did when created.

Few say no

As a result of the 1976 reenactment of the revenue-sharing law when the original law expired, Washington now requires any government receiving \$25,000 or more within a year to undergo an audit of all its books at least once every three years. A spokesperson for the Office of Revenue Sharing says many governments thus are having audits that would not have been made before.

But even with strings, state and lo-

cal governments want—possibly need—federal funds.

Of governments offered revenue-sharing money last year, only 46 declined funds, with the declined sums totaling a mere \$35,579. Congress has authorized \$6.8 billion under the program each year through 1980.

Also, when President Carter last January revealed his fiscal 1979 budget—and when state officials realized the increase in aid to states that it contained was much smaller than an increase the year before—there was criticism. The National Governors' Association said the budget plan would not reduce fiscal pressures that are plaguing the states and "does not provide any new dollars that could be used to meet needs deferred during the recession."

What about the future?

Liberal Sen. Harrison A. Williams, Jr., (D-N.J.) does not expect the federal government's involvement in state and local affairs to increase in the coming years "except in a very few and specific areas."

Conservative Sen. Jesse A. Helms (R-N.C.) feels that the future will be determined by the taxpayers. "As long as they continue to look to Washington

for security and for easy solutions to their problems, they will find their liberties eroding and America's strength dissipating."

At a crossroads

Nevada's Sen. Laxalt says America is at a crossroads. "The balance seems to be shifting from a belief that the federal government could do it all to a philosophy that espouses local control."

Most of those interviewed agree there is a growing awareness among America's citizens of a direct correlation between their increasing taxes and their demands on the governmental system.

Some of those interviewed also say there is an awareness that relying too much on the federal government to solve the nation's problems could create more problems than are solved. They believe this awareness could be a factor in reducing the scope of federal intervention in the affairs of state and local governments.

President Carter has said that the federal government cannot solve everything and should not be expected to do so. In saying that, he was echoing a lot of sentiment around the country. □

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PLAIN PAPER COPIERS

From Mail Room to Board Room

George Kneeland had to go to work when he was ten and never got a higher education. But he has risen high in business—to the chairmanship of St. Regis Paper Co.

ON SUNDAYS that George J. Kneeland spends at home in Harrington Park, N. J., he rarely fails to stroll over to the fire department, take a chair, and chat with his close friends, the fire fighters.

They fret over the costs of those half-block-long ladder trucks that swing their rear ends around corners the way a kite flaps its tail. They discuss rescue work, and in particular how to get trapped people out of the 20th floor when the ladder only goes up to the 15th. They get into nozzle pressure and new types of hose.

Mr. Kneeland taught fire fighting in the Navy during World War II, and he served on the Harrington Park volunteer force for 35 years. He is 61 now, but his interest in the art of putting out fires has not diminished.

Besides being a former fireman, Mr. Kneeland is chairman and chief executive officer of the St. Regis Paper Co., one of the world's largest and most successful paper, pulp, and packaging enterprises.

Self-made man

George Kneeland's beginnings seem as unlikely for a man in his position in the business world as do his Sunday sessions at the firehouse.

There is no Harvard or Stanford master of business administration de-



PHOTO: ROBERT LEHRER

gree in his background; in fact, there is not even a college degree of any kind. There are no influential relatives or friends. There is no inherited wealth.

Mr. Kneeland's formal education ended with a diploma from Dumont High School in Harrington Park. His family had moved to the small New Jersey town from Manhattan, where he was born, when he was three.

His father died when he was five, and when he was ten he began working, getting what education he could squeeze in while making German crumb cakes in a local bakery. He moved up to errand boy, and when he was a bit older, he became the bakery truck driver.

Young George had to work hard. He and his mother depended on his earnings.

His first job at St. Regis was in the mail room, and the salary was \$65 a month. The year was 1939, and the Depression hung like a cold, wet, black blanket over the nation.

\$15 million to \$2 billion

St. Regis in those days was a puny \$15 million-a-year operation. Today it is a \$2 billion-a-year giant. George Kneeland has been with St. Regis all the way on its climb, climbing with it. He has held 20 different jobs at the company. He was elected chairman and chief executive officer in 1972.

Mr. Kneeland last year was selected for one of the awards made annually by the Horatio Alger Awards Committee, Inc., of New York, to Americans who have risen in business, the arts, entertainment, or sports from starts far down the ladder.

Proud as he is of the award, and of others he has received, Mr. Kneeland does not freely tell about them. A modest man, he must be talked into discussing the subject.

His office is modest, too. It is comfortable, but its size is more befitting a middle-ranked vice president than the chief executive of a company in the St. Regis class.

The door with no name

The door outside Mr. Kneeland's office, on the 41st floor of a Manhattan office building, is blank. A fire extinguisher hangs nearby, and there is another door a few feet away with the

word exit printed on it. To reach the office, you are told:

"Go to the end of the hall. His door is there. The one without any name."

George Kneeland is a big fellow whose shoulders—as he hunches forward—always seem to be getting out in front of him. Few people can get through a pack of cigarettes as fast as he can. The voice is very soft to come from such a large man. He turns conversations again and again to his wife, Rita, to his two children, and his five grandchildren.

He says candidly that he would rather "be with my family than with anyone else."

"Close to our people"

Mr. Kneeland also enjoys the company of St. Regis old-timers—many people who worked beside him back down the track. They are on a first-name

"I can go to most of our mills and find people I have known for years. I always spend time with them, and they seem to like that. A few weeks ago, our Jacksonville plant had its 25th birthday. Some of our people were getting 25-year service pins. I know these people from a long time ago. So I left New York at five in the afternoon, got to Florida for dinner, saw my friends, enjoyed the party, and was back home in New Jersey at one the next morning."

A touch of steel

Quietly as Mr. Kneeland may speak, there is an air of authority about him. When you ask him if he is gentle during a board of directors meeting, you catch a bit of the steel in the man. "I am never afraid to speak my mind," he says. "It has done me some harm, but in the long run it has helped."



The chairman of St. Regis travels as much as 200,000 miles a year on business, which doesn't give him nearly enough time to be at his comfortable home with his wife, Rita. Sometimes she travels with him.

basis with him despite the fact that he moved steadily to the top while they remained behind—some of them far behind.

"I think St. Regis is different from some other companies because we—and this includes me personally—try to be as close to our people out in the field as we can," Mr. Kneeland says. "It's a very important thing, I find."

He plans each day carefully so that he can get through his program of work. In an average year, he flies 200,000 miles, many of them overseas. Once he flew home from Tokyo to attend a meeting of the Harrington Park town council, of which he was then a member.

His program is so tight that he rarely sees a sports event, doesn't get to



A former member of the volunteer fire department in Harrington Park, N. J., where he lives, Mr. Kneeland frequently visits with current members.

read as many historical novels as he would like, sees his family less than he wishes (his wife sometimes travels with him), and does not get to Cape Cod often enough. There, at East Orleans, he has a boat and a vacation home. He keeps up as best he can with his coin collecting.

He is also, as he phrases it, "a director of four or five companies," and he says he wants to keep on with this activity when he retires "in a couple of years."

George Kneeland is one of the busiest men in business. He would like to slow down, but this is a competitive world, and the paper, pulp, and packaging industry is among the most competitive. He has to run hard to keep St. Regis ahead.

Here, in an interview with a NATION'S BUSINESS editor, Mr. Kneeland talks about his company, his industry, and occasionally about himself.

The paper industry has been deeply involved in improving the environment. How do you assess what has happened?

The impact on our industry has been tremendous, and it continues to be, although the paper industry is far advanced in getting things cleared up. We have moved fast in the past five or

six years. We have spent a lot of money, and I'm proud of the industry.

St. Regis alone has spent about \$180 million in the past six years, and practically all of our big jobs are completed.

Are you aware that all business, including the paper industry, has spent more than \$100 billion on pollution cleanups? That's a reliable figure.

Our main problem now is that requirements are suddenly changed on us by various government groups. We will have finished complying with one bunch of requirements and gotten an environmental problem cleared up, and then all of a sudden those requirements will be changed. Back we will have to go to do more work, sometimes to undo previous work in order to meet the new requirements. This is most unfair.

How can companies expand when return on investments is so low?

Very low return on investments is the main reason why businesses are not expanding as rapidly as Washington would like. About 15 years ago, the average return for all businesses was about ten percent. Now it is about four percent.

If you took the assets of many companies and put them in tax-exempt bonds, stockholders would get something like a 6.5 percent return. That is a lot better than four percent.

When you consider the risk factors involved in most paper industry expansions, plus the tremendous cost of borrowing or otherwise raising money, we should be justified in expecting a return of from eight to ten percent. But the average return in our industry is only 7.5 percent.

What can be done to increase the formation of capital for business expansion?

For one thing, business should be kept better informed on taxes, on other monetary matters, and on what the ball game is going to be. Washington changes the rules of the game too often and often too suddenly. Look at the paper industry. It takes more than four years to get the necessary studies done for a proposed new mill, get up the money, put together everything else that's needed, and then get the mill built.

During this period, you can expect to run into a variety of problems. Three things for sure will happen. Inflation will distort your costs; Uncle Sam and some state government will change the

regulations and perhaps the laws on you, necessitating changing the design of the mill or making some other sort of major change; and the return you expected at the start of construction won't be forthcoming when the mill is in business. In the end, you won't get the profit from a well-run mill that you had every right to expect.

This is a pity, too. You can't stop once you get going on a big project.

Another problem is the time and money a company must put into studying all the laws, many of which are unnecessary, that Washington grinds out. Some people say congressional sessions should be held down to 90 days per year. That sounds good to me, but it might not be very democratic.

What percentage of your time is devoted to problems with governments?

I would estimate at least 50 percent goes for work on governmental issues. Ten years ago, a business leader in my sort of position spent about ten percent of his time on governmental problems.

There are reports, hearings in Washington and state capitals, efforts to get our message across to the people who make laws.

If the government wants us to change our pension plans, or something of that nature, I have to put many hours into studying the action. As a chief executive, I feel I should read laws that pertain to such things as our pension plan, and this takes far more of my time than I should have to give.

Federal laws on safety and health in business are far too complex. We get the bureaucrats to interpret these laws, and often we then find that these interpretations vary in different parts of the country. And they vary between bureaucrats. Gobs of time are consumed.

A lot of laws we must comply with are a waste of time. I'll cite one. For the safety and health of employees, wastepaper baskets in restrooms must be so-and-so inches high. If they are as much as half an inch off, you can be fined \$25 per basket.

Another problem: We must deal with state and local governments, and sometimes their laws conflict with federal laws. So, no matter whose laws you comply with, someone is going to get mad at you.

You remain an optimist. How can you?

It is difficult sometimes, especially
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when you are attacked by a lot of people, organizations, and government agencies. I believe that everyone in upper management should be optimistic. If we aren't, we are not proper leaders. Optimism must be a part of our nature or all is lost.

Are you less optimistic than you were five years ago?

I suppose optimism diminishes as we get new barriers we must hurdle. But, basically, I still have the inclination to stick in there fighting, so that things will get better.

A couple of years ago, I gave a speech in Japan which was optimistic in tone, and I'm glad to say that tone was justified by later events. I said I was hopeful that there would be more cooperation in international business from the Japanese. The Japanese are beginning to cooperate more now.

I'm optimistic, too, in believing that world production will continue to shift around so that we get more things made where they should be made, and not in some country where they should not be made.

I'm optimistic that we will become better informed on foreign trade, trade barriers, nontrade barriers. The more we know about foreign trade, the less likely we are to be isolationist and protectionist.

You say in speeches that there is no U.S. economy, no Canadian economy, no other national economy—only a world economy.

Yes, I do. More business leaders accept this now than before the start of the energy crisis in 1973. That began to bring it all home. We are interdependent. Further efforts are needed now to get this across to all business people, because until that is done there will be a lot of trouble reaching correct solutions for world economic problems.

Look how the dollar has fallen in value in the past year or so. That is a world problem, not just an American problem. A rise or fall in the price of oil, coal, or other items affects many nations, not just the producing nation. The U.S. still has no energy policy, and this affects many other countries.

Do you consider the paper and pulp industry a bellwether for the economy?

Yes, because most end products of the paper and pulp industry are packaging for consumer goods. When consumers are worried about the economy, or when they are short of

funds, they begin to hold back on buying things. This immediately affects packaging, paper, and pulp. Early danger signals are given out.

What do you see ahead for business in the next few years?

I don't see demand for packaging going down anytime soon. I see it going up.

The future of business generally depends on the answers to a number of questions.

What is the dollar going to be worth on world markets in another year or two? Will we get an energy policy in Washington? Is the confidence of the people going to hold up? How about inflation? Will people be happy and understanding, knowing as little as they do about what is going on in Washington?

I don't have the answers, but I'm optimistic that things will improve.

What are the big problems facing the paper industry?

Inflation is the big thing. We know we are going to have some inflation, but we hope it will not exceed six points.

Also, there is lack of productivity. We have to hold down costs. One prob-

lem of earlier years which we have done good work on is reduction in the number of British thermal units used to produce a ton of paper.

Americans are the world's greatest packagers, aren't we?

Definitely yes. This is a fact you notice immediately when you go abroad—the small amount of paper and other packaging materials that are used compared with here.

For example, in many advanced countries milk is still delivered in returnable bottles. Here we have gotten away from returnables except in a few cases.

People who want to go all the way back to returnable packages—have they ever thought how expensive and what an enormous job it would be?

One thing that I disapprove of is requiring deposits on various kinds of packaging—paper, glass, aluminum, or what have you. This is a punitive, impractical way to theoretically make people save and return containers.

When you speak of reconstituting cans, packages, or bottles, you must consider how very much energy is needed to carry out the process, how much space a Safeway store would have to allot for storage of returned



This is the "wet end" of the vast machine at the Bucksport, Me., plant of St. Regis. The plant manufactures lightweight coated paper used in the publishing of magazines.

Coca-Cola bottles, how much sterilization equipment and water would be needed to clean containers for reuse, and how many people you would need to look after all of this.

Are any new packaging materials coming along soon?

There are always new things coming along. Some new ones you are already using, but you just don't know they are new. You only know that somehow they are better than the old packaging.

Here at St. Regis we are very large in flexible packaging and in substrata laminating. We have one covering that can be put, for example, on top of a highly polished piano. You can hardly detect that the covering is there. And girls in high, sharp heels can dance on it without leaving any scratches.

To save paper, why don't more people use both sides of the sheets?

Fine, if they want to. It would also cut down on filing space.

There is a term in your business that intrigues me. What is hogged wood?

That's the shavings, the bark, the scraps, the garbage wood that you accumulate when you prepare a tree for

pulp-making. The word hog comes from the saying that this garbage wood is "only good to throw to the hogs."

Actually, we don't do any such thing. We burn hogged wood to create energy which is used in papermaking.

Our company, by the way, is nearly 55 percent energy self-sufficient because of the burning of hogged wood and residues from papermaking.

What do you mean by kraft paper?

Kraft is a German word for strong. Paper and paperboard that we call kraft is made by a special technique called the kraft pulping sulfate process. The paper that is turned out is, indeed, strong.

St. Regis has paid more than 120 consecutive quarterly dividends. Are you proud of that record?

Yes. I might add that we have raised dividends for the past five years in a row. But my colleagues and I are professional managers. We are paid to perform.

St. Regis is a big company now, and it did not pay dividends always. Between 1929 and 1949, there were no dividends.

We have done some growing as well

as prospering. When I joined the company in 1939, yearly sales were \$15 million. Now they are more than \$2 billion.

Do you have any particular philosophy for life?

I think I can sum up my feelings.

In life, you have to be a giver, not a taker. You have three lives to give—your family life, your business life, and then what I would call your public service life.

I have been elected a councilman in my hometown of Harrington Park, N. J. It is a tough, demanding, time-consuming job, and I did it for six years. Actually, I needed the time I spent on it for my business and family. But I did the work anyway. I owed that to my community. I could do certain things better than some other people in the town—for example, handle money—and I felt I had to make a public contribution.

In your public service life you are also on all kinds of charity-agency boards and in government savings bond programs. You do these things because you should do them.

Don't go around saying things are bad and then do nothing to improve them. Get out there and do your part.

What kinds of people do you like best?

I like most types. There is something different to be gathered from almost anybody you spend time with.

I suppose I will have to be honest and say the types I like best are the types who think the way I do. For the others, you spend too much of your time trying to convince them to agree with you.

The people I like least are the ones with no patience to listen and to think. That kind of person would rather be dead than found to be wrong or uninformed.

If you were invited out to dinner tonight, whom would you like to sit by?

That's a sore point. In a job like mine, I am invited out so often that I can go a whole week without buying any food, even ordering what I want to eat, or eating with anyone I want to eat with. I don't go out to dinner at night unless I have to.

However, you want an answer, so you will get one.

I would sit with my family. □



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Women's Growing Role in Lobbying

More and more women are entering a field once virtually all-male

By Vernon Louviere

IN ANOTHER DAY, the political cartoonist had no trouble depicting the publicly accepted image of a Washington lobbyist—a portly, cigar-smoking, high roller who had a little black bag stuffed to overflowing with greenbacks.

That kind of caricature, of course, has lost whatever validity it had. Today the cartoonist's lobbyist must have a different look.

In addition, the cartoonist might well be thinking of ways to portray a relatively new species of lobbyist—one who often is trim and very attractive.

This is the woman lobbyist, who has burst on the Washington scene in the past few years as more and more corporations, trade associations, public interest groups, labor unions, and others have begun to appreciate the role women can play in influencing legislation.

Although the woman lobbyist still is far outnumbered by her male counterpart, her ranks have mushroomed from a mere handful less than a decade ago to more than 200 today. Where women once were regarded as a novelty in lobbying—few were taken seriously—they now are widely accepted members of a profession that can be traced back to the Continental Congress.

Changed climate in capital

They are part of a metamorphosis that is taking place in this ancient craft—a metamorphosis based to a great degree on a changed climate in Washington.

Watergate, the unfolding Tongsun Park scandal, new ethics codes among lawmakers and other congressional re-

forms, new laws governing lobbying—all are affecting the manner in which lobbyists seek to influence legislation or government policy generally.

Also having an impact is the advent of a breed of senator and representative who is less susceptible to the old ways of doing business.

Some lawmakers who go to lunch with lobbyists even pick up their own checks. Many shun the familiar watering places and the country clubs in meeting the lobbyists and will see them only in their offices.

Running in a fast lane

If you were to draw up a composite of the woman Washington lobbyist you would probably see someone in her late 20's or early 30's who has a college degree in an area unrelated to what she now is doing and who approaches her new career in an extremely businesslike fashion. She goes out of her way to be taken seriously and probably would impress you with her knowledge and dedication.

When Susan Fridy went to work six years ago as a lobbyist for the National Milk Producers Federation, she didn't know a federal milk marketing order from an acreage allotment.

"It was a brand new field," she says. "I was running in a fast lane, dealing with people who are very expert in a complicated field. Now I can sit down with dairymen and talk about quality standards, every conceivable grade of cheese, and everything connected with our industry."

On Capitol Hill, where Ms. Fridy wears out shoe leather moving from office to office, she has established credibility as a full-fledged lobbyist.

She does not have credibility with everyone, however. She explains:

"There still are people who, if they are dealing with a woman, feel that they are not dealing with the top person in an organization. I run into a lot of skepticism."

Ms. Fridy concedes there are advantages to womanhood in her profession.

"You are noticed, and you are remembered," she says.

On at least one occasion, however, the wrong kind of notice was taken, she says.

"I was talking to some members of a senator's staff one day when the senator walked into the outer office, came over, and told me to leave. He said I was bothering his staff. He went back into his office and I kept talking. But he emerged again and ordered me out. I never got a chance to explain what I was doing. I could have been a magazine salesman as far as he was concerned."

Obviously, she feels, the senator didn't even consider that she might be a lobbyist.

A matter of education

Llewellyn H. Gerson is chief lobbyist for the United Fresh Fruit and Vegetable Association and its 2,700 members. She has been a lobbyist for eight years, starting with the National Federation of Independent Business.

"I'm educated in my subject matter," she asserts. "I know what I'm talking about."

Ms. Gerson came to her profession better prepared than many of her colleagues—she has a graduate degree in economics from George Washington University.



Scotch Pankonin represents the forest products industry and coal-slurry Pipeline interests as an independent, full-time lobbyist. Here she talks with Sen. James A. McClure (R-Idaho).

She sees as the major function of her job the education of members of Congress on problems peculiar to fruit and vegetable growers, distributors, and sellers. Similarly, she seeks to educate her employers on how they can effectively influence Congress and government generally.

"This is their industry," she says. "These are problems happening to them. The voice from the grass roots is effective in Washington."

"When I can get that point across, I find it very satisfying. When a member of Congress calls me and says he has

been hearing from people in his district or state on a problem I've been involved in, I know that I have been effective."

Most women lobbyists say that they are rarely put down on Capitol Hill, that they are treated with respect.

"But remember, I work at it," Ms. Fridy says. "I always approach every senator or congressman on a very businesslike basis. Sometimes I go overboard; I am too straight. Maybe that's a defense mechanism we women have to use."

Llewellyn Gerson, likewise, is very businesslike. The point was driven home to her at a cocktail party. A senator, with whom she was having light conversation, finally said: "You know, you're a lot warmer than I thought you were."

Businesslike is an adjective that also applies to Margaret Gehres, who has taken part in one of the most intense lobbying campaigns of all times. She was on the winning side.

Last year, when she was a lobbyist for the Associated General Contractors Association, Congress voted down the so-called common situs bill after a long and bitter fight. This legislation, a principal goal of organized labor for a quarter-century, would have enabled a single union to halt construction at a building site where many different unions are working.

"It was certainly a satisfying experience to be on the inside of such a campaign," Ms. Gehres says.

A matter of understanding

Ms. Gehres, who recently joined the legislative staff of the Chamber of Commerce of the United States, says she is impressed with the way business is becoming more aware of its stake in Congress and of its ability to influence legislation.

"I see my role as one of informing and educating," she explains. "Once people on Capitol Hill understand how business operates, you can get your message across."

Ms. Gehres, who has a degree in international affairs from Georgetown University, says she is impressed with the caliber of members of Congress with whom she deals.

"They are extremely conscious of their time," she says. "Most of them would not be susceptible to the kind of

social relationship that used to prevail between lobbyist and member. Also, Congress is far more open than it used to be."

Nancy Clark Reynolds was practically predestined to a career involving politics. Her father, D. Worth Clark, was a congressman and a senator from Idaho; three uncles were governors of that state; and she has a cousin married to Sen. Frank Church (D-Idaho), who at one time was a member of her father's law firm.

Working twice as hard

Ms. Reynolds is vice president-national affairs for the giant Bendix Corp., which makes her one of the highest ranking women corporate lobbyists in Washington. Before joining Bendix, she was a lobbyist for Boise Cascade Corp., headquartered in her native state.

"Yes, we women lobbyists have had our problems with being taken seriously," she says. "But that is fast disappearing. Some of us have to work twice as hard to prove ourselves. We have to do a little more homework. In other words, we have to push harder just to stay even. Perhaps these might be considered disadvantages, but we turn them into advantages."

Ms. Reynolds, who began her career as a television newscaster—while working for a San Francisco TV station, she became the first woman to co-anchor a major evening news show—joined the staff of California Gov. Ronald Reagan in 1966, serving both as assistant press secretary and special assistant. When Gov. Reagan launched his campaign for the presidency in 1974, she was a member of the advance team.

"There are advantages, of course, to being a woman lobbyist," she says. "Most of the men are particularly polite, and they are eager to give you a chance."

"Women also have another advantage—we come to this work well organized. Most of us run organized lives with families. We appreciate the value of not wasting time."

Some lobbyists avoid lawmakers who are dead set against a position they are pressing. Not Ms. Reynolds. She considers that a special challenge to overcome. She explains:

"Here's where you can test your

ability to influence somebody's thinking. You use all the pros and cons at your command. You do it with a thorough knowledge of your subject."

Up the ladder

When Atlantic Richfield Co. opened a Washington office 11 years ago, Donna C. Blair, a former psychology researcher at Johns Hopkins University in Baltimore, signed on as a \$6,000-a-year secretary with the big oil company. Six years ago, she was promoted to legislative assistant, but many of her duties remained secretarial. In 1974, the head of the office called her in and said: "How would you like to be a lobbyist for ARCO?"

She grabbed at the opportunity, and today she recalls: "Anyway, I was a lousy secretary."

While she has run up against the common problem of not being taken seriously in this once all-male arena, her maturity helped her overcome it.

"I didn't start in my 20's or early 30's," she says, "so I wasn't the type some senator or congressman would pat on the head and ask, 'What's a cute little thing like you doing in this man's world?'"

Must be prepared

Because of the complexities of today's problems, Ms. Blair points out, lobbyists as well as members of Congress have to be more technically competent than they were in the past.

"You simply can't get by unless you are technically prepared," she says. "And that's certainly true when you're a lobbyist in an industry like mine."

Some women lobbyists—not all—suspect they owe their jobs to mounting federal pressure on employers to hire more women for responsible positions.

"If that's what some organizations are doing, then they are—by sheer accident—reaping unexpected benefits," Ms. Blair says. "Most of the women I know in this field are extremely competent."

There also is a feeling in some quarters that women lobbyists may not be enjoying the same pay as their male counterparts.

"Because some women don't have the background that some men bring to lobbying, there are organizations that use this as an excuse for paying women less," Ms. Blair asserts. "Of course, most women have not been given the opportunity to develop such a background. So we are caught in a vicious circle."

Working ten years for two Idaho Republican congressmen—Steven D. Symms and James A. McClure, who now is a senator—Scootch Pankonin developed an expert's knowledge of the problems of the timber industry. Last year, she decided to convert that knowledge into a new career.

Now Ms. Pankonin, whose unusual first name is a nickname she prefers to use, is a full-time independent lobbyist for the forest products industry as well as for coal slurry pipeline interests.

According to Ms. Pankonin, establishing her credibility has been no problem in Washington. Elsewhere, it has been another matter.

"There is still a prevailing view on the part of the average American that every lobbyist has his back pocket stuffed with money and that he spends it lavishly," she explains. "There's a lot of misunderstanding around the country on just what the role of the lobbyist is. Just because you are pushing a special interest doesn't mean you are doing something bad for the American people."

Ms. Pankonin believes that, as a woman, she has better access to such special groups in Congress as the black caucus and members of the extreme left.

"Several of my male colleagues representing business tell me they have difficulty getting entrée in these areas," she says. "There seems to be a little more trust when the approach is by women."

Upgrading training

Some women who have gotten into lobbying and found that their education was poor preparation for the field are trying to correct that by returning to school.

Linda F. Mills, a lobbyist for General Mills, Inc., says: "I got a degree in Spanish and started out as a schoolteacher. These days I'm working on a master's degree in business administration. A number of women lobbyists I know are going after master's degrees in legislative affairs."

Ms. Mills came to Washington from her native Louisiana to work as a public relations aide to a Louisiana congressman. Six years ago, when General Mills opened a Washington office, she took a job in the government relations section.

Freddie Lucas, who joined the government relations staff of General Motors Corp. in Washington two years ago after almost nine years with J. C. Penney Co., enjoys two distinctions:

She is one of the most educated of the women lobbyists and she is one of the few black women in that profession.

Ms. Lucas earned a bachelor's degree at Morgan State University, won a Fulbright scholarship to the University of Oslo in Norway, got a master's at Penn State, and was awarded a doctorate at the University of Iowa in Iowa City.

"If there are disadvantages in being a woman lobbyist, I haven't found them," she says. "I was in what has been considered a disadvantaged position originally, and I guess I was trained not to look for disadvantages. I approach everything like that old Baptist hymn says: 'If you can't get through, you go around, you go over, or you go under.' The idea is to get to your objective."

Are there advantages to being a woman in lobbying?

"Well, we are a novelty, and being a woman will open some doors for you. But let me quickly add: When you get through that door, you have about 30 seconds. If, in that time, you don't indicate your ability to relate a real message in behalf of your corporation, you will have blown your credibility and won't get back in there soon again."

Acceptance has come

When Sheila Bamberger went to work with the National Canners Association (now the National Food Processors Association) six years ago, she was believed to be the first woman lobbyist hired by a manufacturing trade association in Washington.

Ms. Bamberger has been part of the transition in which women lobbyists have advanced from being objects of curiosity to being accepted as skilled professionals.

"At a certain point, the uniqueness of sex wears off and other factors take over," she says. "We still have our problems, however. Some men don't consider us well enough up on things to qualify in what we're doing. They think we are not interested enough in the basic structure of our industries to learn enough to make us truly effective in Congress. Some men are still not comfortable discussing things they don't think women are interested in, such as conglomerates, energy supplies, and the like."

On the other hand, Ms. Bamberger says she is quite pleased that corporations are hiring more and more women, not only in lobbying, but other fields as well.

One man who has watched the emergence of women lobbyists is
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Donna Blair, lobbyist for Atlantic Richfield, discusses legislation with Sen. Pete Domenici (R.-N. Mex.). A former psychology researcher, she started out as a \$6,000-a-year secretary with ARCO 11 years ago.



Business is becoming more aware of its stake in Congress and of its ability to influence legislation, according to National Chamber lobbyist Margaret Gehres, shown with Rep. Clarence Long (D.-Md.).

One of the few black women in her profession, Freddie Lucas lobbies for General Motors. She prides herself on knowing her subject matter, which gives her access to people like New York Rep. Barber Conable, a G. O. P. leader.



Sheila Bamberger keeps in close touch with farm issues as a lobbyist for the National Food Processors Association. She is shown here in the House Agriculture Committee room with committee member James Weaver (D.-Oregon).



Linda Mills, shown here with Sen. Muriel Humphrey (D.-Minn.), began her Washington career as an aide to a Louisiana congressman. Six years ago, she joined General Mills, Inc., as a lobbyist when the firm opened a Washington office.



Nancy Reynolds and Sen. Paul Laxalt (R.-Nev.) chat in the Dirksen Senate Office Building. As vice president-national affairs for Bendix Corp., she is one of the highest ranking women corporate lobbyists in Washington.

As chief lobbyist for the United Fresh Fruit and Vegetable Association, Llewellyn Gerson is a familiar figure in the House Agriculture Committee hearing room, where she keeps abreast of legislation vitally affecting her 2,700 members.

gence of the female lobbyist in the national capital with more than passing interest is Charles B. Lipsen, a veteran lobbyist in many fields and author of "The Vested Interest," a book about Washington lobbying. Mr. Lipsen told NATION'S BUSINESS:

"These women are accepted on the Hill. More companies, unions, and trade associations downtown should realize that a woman can be very effective as a lobbyist."

Husband-and-wife team

Mr. Lipsen's interest is as personal as it is professional. His wife, Jan, also is a lobbyist, representing a number of metal and mining interests. They make up what they believe to be the only husband-and-wife lobbying team in Washington.

One of the most respected and best-known experts on lobbying in Washington also offers some observations on women lobbyists. He is Bryce Harlow, vice president of national government relations for Procter & Gamble Co., who served as a top assistant to Presidents Eisenhower, Nixon, and Ford. Mr. Harlow says:

"I don't see why these women can't be as effective as the males. It's not a question of sex, but of perseverance and hard work, which women can offer as well as men."

Even though lobbying is an individualistic pursuit, some of the women see merit in banding together to enhance their professional standing.

In 1975, a small group formed an organization called Women in Government Relations, Inc. Today about a third of its almost 100 members are registered lobbyists. Bettie S. McCarthy, manager of government relations for Borden, Inc., is its president. She says one of its principal functions is to promote the image of executive women in government relations.

Code of ethics

"This is a profession in which women are proving themselves, or their ranks wouldn't be growing," she says.

Ms. McCarthy adds: "We still have roadblocks to hurdle. Some male members of Congress, for example, are not able to take women out of the framework that they're most familiar with—the home. Where that view prevails, it is hard to take seriously what a woman lobbyist says."

Thanks to Women in Government Relations, lobbyists will soon have a formal code of ethics to live by. The code is being drawn up for WGR mem-

bers but will be available to all lobbyists.

Kathleen Buck, a government relations attorney with Esmark, Inc., is principal author of the code. She told NATION'S BUSINESS:

"The code addresses itself to abuses. We are looking at a whole range of things—gift-giving, making payments for public speaking, and so forth. We are incorporating some of the better features of the ethics codes drawn up by the House and Senate and the regulations imposed by various federal agencies."

Dean of women lobbyists

When the subject of women lobbyists comes up on Capitol Hill, the name most frequently mentioned is Evelyn Dubrow, who has been plying her trade for more than 20 years for the same employer—the International Ladies' Garment Workers' Union. She is the dean of women lobbyists.

"There is a great advantage to being

even the most conservative members, even though she rarely gets their support.

On at least one occasion, Ms. Dubrow has worked in tandem with a team of business lobbyists as they sought to defeat legislation calling for wage and price controls.

"We were on the same side, but for different reasons," she recalls. "With me, it's the issue. I'll take votes and support wherever I can find them."

A few years ago, the House Education and Labor Committee was considering a bill which organized labor felt would severely undercut its political activities. One member of the committee was Earl F. Landgrebe, an Indiana Republican with strong conservative leanings. He was about to retire from Congress.

"Right before the committee went into closed-door session, I went up to Mr. Landgrebe and said: 'Congressman, just this once, give us your vote,' " Ms. Dubrow recalls. "I knew he



Evelyn Dubrow, the dean of women lobbyists in Washington, has represented the International Ladies' Garment Workers' Union for 20 years. Here she visits with Chairman Warren G. Magnuson before a Senate Appropriations Committee hearing.

a woman lobbyist," she says. "With one or two exceptions, I've never been treated discourteously. If a woman lobbyist is knowledgeable and can answer questions and understand the situation, she can do a very valuable job for an organization."

Evelyn Dubrow decided early in the game she wouldn't restrict her congressional contact work to prolabor members. She enjoys the respect of

was about to leave the House, so he had nothing to lose."

The congressman replied: "I'll see."

When the committee session broke up, Evelyn Dubrow rushed over to Mr. Landgrebe and asked how he had voted.

"Evelyn," the congressman told her, "I was ready to vote with you, but you were so far ahead that I decided to vote on principle instead." □

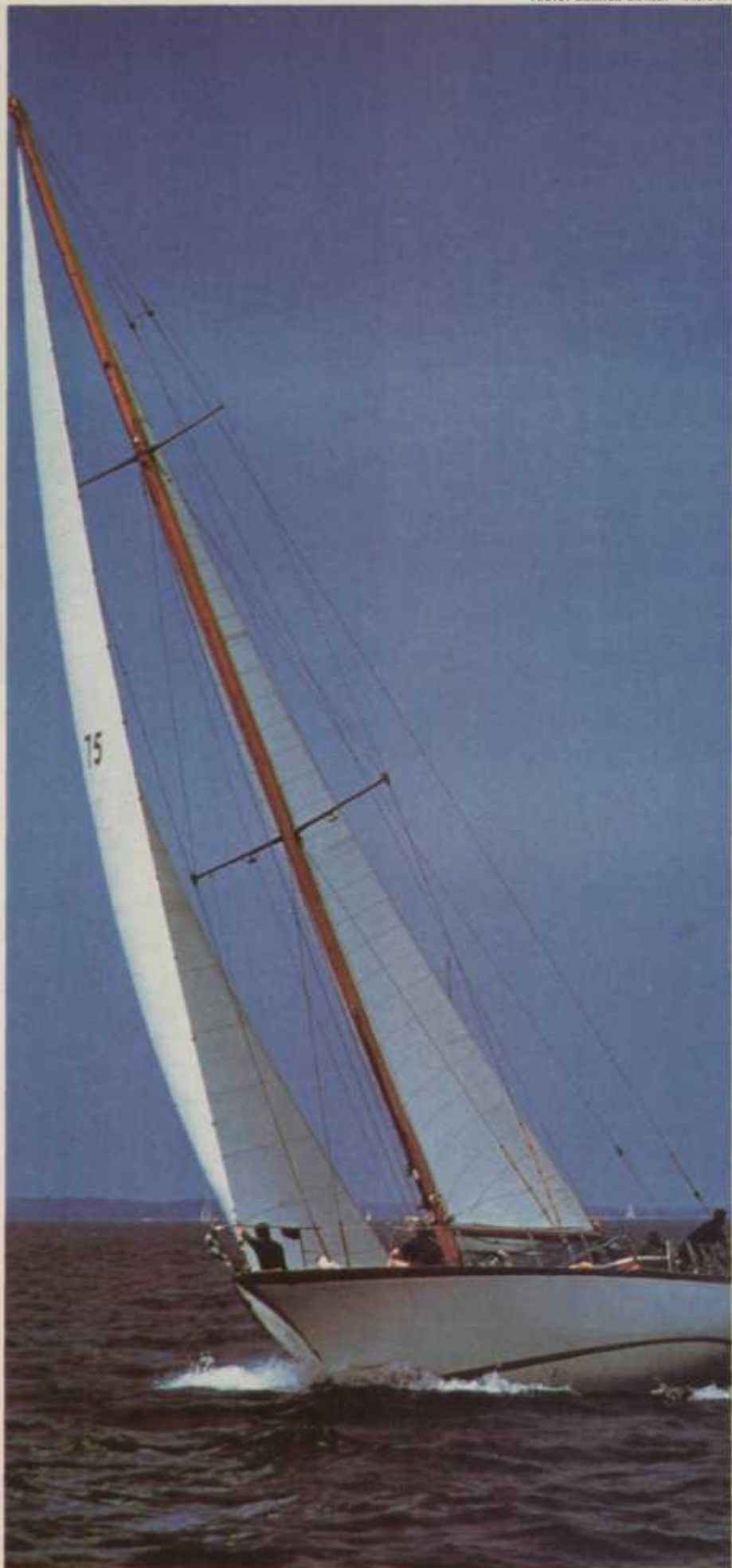


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PHOTO: DAVID STAHL—UNIPRO



PHOTO: A. PIERCE BORDS—UNIPRO



"The freedom to roam the watery world is what is given to a sailor," one says. More than 52 million Americans, some in powerboats, some in sail, now making boating their hobby.

From Desk to Deck

By John Costello

WHEN Susan Grandpierre and her husband were divorced two years ago, it was an amicable parting of the ways.

However, one possibly thorny problem had to be worked out—what to do with Pegasus, their 26-foot Columbia sailboat.

They solved that one with a Solomon-like decision. They now share ownership of the craft, 50-50.

"A boat is a very personal thing," says Susan, a Union Carbide Corp. economist who lives in Manhattan. "Both of us liked the boat so much that we decided we could have it in partnership. And it has worked out very well."

"We have even put our vacations back to back. He'll sail it up somewhere. Then I'll go up and sail it back." Since she reached 11, Susan has been boatless only once—when she was a sophomore at Hunter College.

That was not really of her own volition. She suspects her father conned her into that position.

"Do you know what he did?" she says, laughing. "He told me how much it cost me to sail. Then he said: 'Look at the total cost of it. Are you getting your money's worth?'"

"Gee, I never thought about how much it cost. This was my consuming interest."

"But I was shocked when he figured it up. I was using the boat so infrequently that it was costing me something like \$20 a sail. At the time, that was a lot of money to me."

"So I sold my boat."

"And you know what? He had a big, complicated powerboat. What I think he really wanted was me to crew for him."

BOATING is one of America's favorite sports.

The last time the Bureau of Outdoor Recreation—yes, Washington has one—took a nose count, it found that more than three times as many Americans go boating as play golf or tennis. The boaters include those who use powerboats—stinkpots, to sailors. And those who sail—to powerboaters, rag-haulers.

Only five percent of the people buttonholed by the bureau say they play golf. It's the same percentage for tennis. Last year, 52,575,000 Americans boated for fun.

That statistic is based on data from sources including the National Association of Engine and Boat Manufacturers, Inc., and the Boating Industry Association.

America's boaters went out on the water in more than 10.5 million pleasure craft of all kinds. Here's a rounded

breakdown on how many boats Americans own: 6.2 million outboard, 980,000 inboard, 840,000 sailboats, and 2.5 million houseboats, rowboats, dinghies, prams, canoes, and kayaks.

Boaters spend a bundle on their hobby.

They shelled out nearly \$6 billion for boats, motors, sails, services, insurance, fuel, mooring and launching fees, repairs, and boat club dues.

That's for 1977 alone.

But boats are a good investment.

"Especially for a businessman," says Frank Scalpone, administrative vice president of the National Association of Engine and Boat Manufacturers.

"Over a five-year period, the sailboat you paid \$10,000 for originally is still worth \$10,000 on the used boat market today. That's because of inflation and the low depreciation rate on boats."

"Same way for a powerboat. If you paid \$50,000 for one four years ago, it's still worth \$50,000."

"So your only out-of-pocket expense is the depreciation of the dollar."

Financing is easy, too, he adds.

"You can get 11-year financing on a boat, 15 years in special cases. These big expensive boats depreciate very little, unlike a car."

PARKING is a problem for boaters as well as for motorists. The sport would be even more popular, says Al Limburg, public relations director of the Boating Industry Association, if there were more places to keep boats.

America has only 4,675 marinas and boatyards and 1,300 yacht clubs.

Thank Washington, in part, for their scarcity. Environmental hurdles make it difficult—and costly—to put in a new marina or expand one.

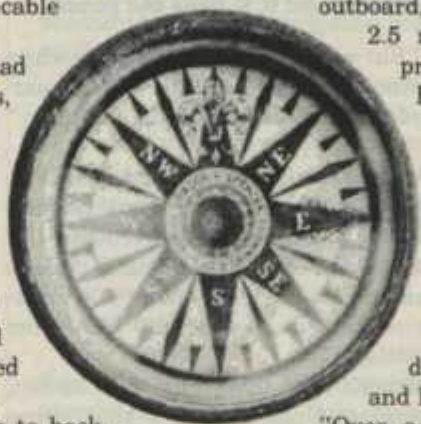
Too bad, since America is blessed with lots of water to sail or putt-putt on.

The U.S. has 134,447 miles of tidal coastline, nearly 61,000 square miles of open water on the Great Lakes, 25,000 miles of other inland navigable waters, and 7,800 miles of water on Corps of Engineers reservoirs.

In fact, boating is a popular sport in states where you'd least expect to find it at all—like Arizona—thanks to dams and man-made lakes.

"They've got a dam across anything that's too wide to walk across," Mr. Limburg says.

It may surprise no one that there are more boats in





Some 120,000 Sunfish, popular little sailboats, skitter around U. S. lakes and ponds.

California than in any other state. But how about more boats in Arkansas than in Oregon?

The No. 2 boating state, Minnesota, is in the Midwest. In fact, half of the top ten boat-owning states are there: Wisconsin, Ohio, Illinois, and Missouri, as well as Minnesota.

"Boating has grown tremendously in what were once dry-land states," Mr. Limburg says.

"Take even northern Plains states like South Dakota. There are three enormous dams that back up immense lakes on the upper Missouri River. Oahe Dam, for example. It's an earthen dam.

"Downstream, the dam looks like a low hill—about five miles long.

"You get on the other side, and what you see looks like an ocean."

IS THE hobby expensive?

Harold Vanderbilt, who skippered in the America's Cup competition, is said to have described sailing in this way: "It's like standing under a shower and tearing up \$100 bills."

Yachting aside, however, boating need not cost an arm and a leg. "Boating" magazine gives these price brackets:

| | |
|--------------------------------------|----------------------|
| Outboard boats | \$295 to \$10,290 |
| Stern drive | \$1,744 to \$65,000 |
| Inboard | \$2,500 to \$517,000 |
| Day sailers and one-design sailboats | \$ 159 to \$19,200 |
| Cruising sailboats | \$2,295 to \$711,300 |

WHAT IS YACHTING? It refers, perhaps, to a way of life rather than to length of keel.

Keith Taylor, editor of "Sail" magazine, says: "We don't care what size a boat is. As long as it's propelled by wind power, it's the sport of sailing.

"But we equate yachting with white flannels and dry martinis on the quarterdeck—occasionally a gin and tonic."

IN STANWOOD, WASH., Jerry Gilbertson owns the only funeral home—and one of the biggest powerboats.

Stanwood is on Puget Sound, close to Camano Island. That resort is a favorite retirement spot for city folks from Seattle.

Jerry's boat, Reel Fun, is a 32-foot, fiberglass Uniflite cruiser that sleeps eight. He bought it last year.

What does a boat like that cost?

"Now," he says, "about \$45,000, plus \$8,500 worth of electronic equipment."

The equipment is for fishing.

When he was 16, Jerry bought his first boat, a 14-foot Skagit runabout, for \$800. An outboard motor for it came to another \$400. That money represented about four thrifty years of savings he scraped together while serving as an apprentice embalmer and funeral director at the mortuary he now owns.

He used to take his wife, Norma, out in the nameless runabout when they were both in high school.

At the time, she didn't know a boom vang from a bung starter.

But both loved the water.

Their enthusiasm has rubbed off on their only son, 14-year-old Greg.

Father and son fish together a lot for fun. In the summer, they also cruise up the coast to Big Salmon Fishing Resort at Neah Bay. It's near Cape Flattery on the northwest tip of the state.

There they charter out Reel Fun to fishermen, with Dad as skipper and small fry as bait boy.

Like the Gilbertsons, Joan Eadie got her sea legs early.

Dick Eadie, "sort of the boy next door" in Larchmont, N. Y., she says, asked her to crew for him on his boat, Shady Lady.

Joan was 18, and Dick was just out of prep school.

"The first time I went out," says Joan, "I was hooked. Maybe it's the smell of the saltwater—it just zings you. And you get away from everything, all the nitty-gritty, all the little cares of the world."

Although his crew was green as grass, Dick's boat came in a creditable third that day in a swing around the buoys.

Shady Lady was not named after any of his female acquaintances, his wife tells you.

"His parents," Joan says, "had a 35-foot Coastwise cruiser called Princess. Dick used to sail alongside them in his little International 110—in Princess's shadow or shade."

Hence, Shady Lady.

Dick is now president of Vanderburgh Enterprises, Inc., Westport, Conn., which makes products that conserve fuel and water—low-volume shower heads, for example. Joan is vice president of the firm.

They now own and race a 31-foot Atlantic sloop.

It's an elegant ship with an elegant name: Aphrodite.

Why Aphrodite?

"Aphrodite was born on the crest of the waves," Joan patiently explains, "and she was the goddess of love and beauty."

IF POWERBOATERS had a patron saint, it would have to be Ole Evinrude.

In 1910, he invented the first light outboard motor to be a mechanical and commercial success.

NATION'S BUSINESS • JUNE 1978

Once again, behind the successful man was a woman. In this case, one with a sweet tooth.

The shy, Norwegian-born Milwaukee mechanic and toolmaker had taken his girl, Bess, to a picnic on an island two miles from shore. It was a double date.

Bess decided she would like some ice cream.

The gallant, smitten Norwegian jumped in his boat and rowed two miles to get it. The trip didn't take awfully long.

But the return trip, upwind, was another story.

Long before he reached the island—hot, perspiring, with the ice cream melting—Ole thought: "Why not build a gasoline motor, hitch it up on a propeller, and stick it on the end of a rowboat?"

He really wished he had thought of this earlier.

Ole designed a 62-pound engine that is still the pattern for today's standard outboard.

IN THE 1950's, the industry introduced the electric starter for motors.

That helped touch off a powerboat boom. It also laid to rest an old chestnut, author Pete Smyth says in his historical series, "The Great American Boat Business," in "Marine Business" magazine.

The story concerns a desperate man, working himself into a lather as he yanks on a rope, time after time, trying to make his motor start. His better half remarks to a fellow passenger in the boat:

"It would be faster to row. But he needs the exercise."

WHEN he names a boat, the owner often tells a lot about himself.

Take William H. Gray, Jr., a San Jose, Calif., attorney.

When he was president of the Surety Title & Guaranty Co. there, he hadn't found time for a vacation in years. Then friends invited him and his family to spend a few summer weeks with them at Donner Lake.

Bill, his wife, Barbara, and their ten-year-old son, William H. Gray III, nicknamed Sandy, all learned to water ski on the lake.

"As soon as we got back to San Jose," Bill says, "my wife and son were out shopping for ski boats."

They bought a 15-foot water-ski boat. It was their very first boat, but they named it Sandy II.

What about Sandy I?

HOW TO BE A BETTER BOATER

By David Keppel III

Boating Services Manager

Boat Owners Association of the United States

People at both levels of boating—casual and intense—have a need for and derive fulfillment from building their personal store of knowledge and skill. Quite obviously, the finest source of this knowledge is on-the-water experience with experienced seamen.

But there is a whole industry catering to the demand as well—be it for basic boating training or for exploration of the fascinating mysteries of offshore seamanship, piloting, navigation, competition, design, or history.

Formal training is available either through correspondence courses or in class. Associations such as mine, BOAT/U.S., as well as Coast Guard Auxiliary flotillas, Red Cross chapters, U.S. Power Squadrons, and state and local agencies offer basic and advanced programs for all levels of interest and skill.

With the growth of boating, commercial schools have also appeared, presenting everything from home-study quickie courses to one or two-week training cruises.

The telephone book for any large city will list numbers for the Coast Guard and Red Cross. State boat registration and water police officers have information on programs at that level.

The best source for leads to commercial courses are the pages of

boating magazines, available from almost any big magazine dealer.

Magazines, of course, are the path most follow as they start to meet the challenge of boating head-on and read up on their avocation. The next step is books—and they are a little harder to find.

Good books on boating are on the market, covering every aspect of the sport, but the average bookstore may not have much of a selection. Mail order houses do exist, however, and often advertise in boating magazines.

Marine stores sometimes carry books for sale, and many boating groups, BOAT/U.S. included, have been forced to become a source for their members.

Probably the easiest and most enjoyable way to gather data, lore, and knowledge about boating is conversation.

Boat people love to talk, answer questions, and explore projects.

Almost everyone on the waterfront who doesn't have a wet paintbrush in his hand will yarn with you all afternoon. Ask questions, listen, ask why, store the answer—and take it all with a grain of salt.

Whether your informant is right or wrong, you'll come away from every chat with something solid added to your personal store of boating knowledge.



Americans fish, water-ski, and generally have fun on the water in more than six million outboard motorboats and nearly a million inboard boats.

Jack Kilpatrick's story touches the heart...

America's most widely syndicated political pundit, James Jackson Kilpatrick, the outspoken TV commentator, popular lecturer and *Nation's Business* columnist, reveals yet another part of himself in **THE FOXES' UNION**, his newest book.

Here in this potpourri of life in Scrabble, Virginia, speaks the poet, baring his inmost feelings. Here in the country where "nothing much happens—only life, birth, death, law, philosophy, the harvest of a summer, the etched impression of a snowy night," Kilpatrick is truly at home.

With wit and wisdom, in words of shimmering beauty, he writes about the simple things that matter most: family and neighbors, gardens and grandchildren, birds and baseball, and tall tales told

'round a kitchen fire. He talks with Livingston, his rubber plant.

He wonders at earthworms and acorns. He delights in people and plants and animals. He reports soberly and truthfully (well, almost) on his favorite group in organized labor, for whom the book is titled, the foxes' union.

Critical praise has been unanimous. As one reviewer says, it was to write such a book that Kilpatrick was born. "It is guaranteed to give you a fix of serenity and pleasure unequalled by any other book."

With drawings of Scrabble's fauna and flora by cartoonist Jeff MacNelly, winner of two Pulitzer Prizes

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"That was kind of a joke," says Bill Gray. "Sandy I was an inner tube."

Elwood Payne, past president of the Wisconsin Boating Association, bought his first boat in 1966—a 16-foot Larson runabout, with a deck at the bow and a complete canvas top.

It was a toss-up between buying a boat or an airplane. He was a Navy pilot in World War II and could fly. But he and his wife, Grace, decided they'd get more use out of the boat.

"I can get out on the water on days I wouldn't be flying," he says. Besides, he and Grace both like to fish.

He's had four boats in all: Grawood I, Grawood II, Grawood III, and Grawood IV.

That's a combination, he explains, of Grace and Elwood.

"It never hurts," he says, "to get brownie points with your wife."

THE FIRST boat Susan Grandpierre owned all by herself—no dibs with her big brother Glenn—she acquired in 1961.

"It was a real bootstrap deal," she says. "My family belonged to the Morris Yacht Club on City Island. One of the men in the fleet wanted to see me sail the boat. I bought it with my own money, but he let me have it cheap."

At the time, she was a junior at Hunter College.

She named the boat—what else in that era?—*Flower Power*.

But why *Pegasus* for the 26-foot Columbia that she now has a half-interest in?

"Well, it's poetic, I suppose.

"Pegasus, you know, was the winged horse who touched the top of some Greek mountain and was the source of Greek poetry. And I guess that's the way I feel about the boat.

"I love it."

Sailing and racing, too.

"It's a challenge to race, you know, going as optimally as you can. It's intellectual, and it's also very physical. And it's always different, and you have to handle whatever's thrown at you.

"The weather, you never know what you're going to get. When it's windy and you have to do something difficult, like jibe, everything you've got will be all used up in about three minutes.

"It's a very high kind of game, and it's a beautiful sport."



NATION'S BUSINESS • JUNE 1978

The Ultimate Tax Shelter



by
TED NICHOLAS

Tax experts are now referring to a small, privately owned corporation as "The Ultimate Tax Shelter." This is especially true since the passage of the Tax Reform Act of 1976. This law makes most former tax shelters either obsolete, or of little advantage. Investments affected include real estate, oil and gas drilling, cattle feeding, movies, etc. These former tax shelters have lost their attractiveness. Aside from that, these tax shelters required a large investment. Only a small segment of the population could benefit from them.

I've written a book showing how you can form your own corporation. I've taken all the mystery out of it. Thousands of people have already used the system for incorporation described in the book. I'll describe how you may obtain it without risk and with a valuable free bonus.

A corporation can be formed by anyone at surprisingly low cost. And the government encourages people to incorporate, which is a little known fact. The government has recognized the important role of small business in our country. Through favorable legislation incorporating a small business, hobby, or sideline is perfectly legal and ethical. There are numerous tax laws favorable to corporate owners. Some of them are remarkable in this age of ever-increasing taxation. Everyone of us needs all the tax shelter we can get!

Here are just a few of the advantages of having my book on incorporating. You can limit your personal liability. All that is at stake is the money you have invested. This amount can be zero to a few hundred or even a few thousand dollars. Your home, furniture, car, savings, or other possessions are not at risk. You can raise capital and still keep control of your business. You can put aside up to 25% of your income tax free. If you desire, you may wish to set up a non-profit corporation or operate a corporation anonymously. You will save from \$300 to \$1,000 simply by using the handy tear-out forms included in the book. All the things you need: certificate of incorporation, minutes, by-laws, etc., including complete instructions.

There are still other advantages. Your own corporation enables you to more easily maintain continuity and facilitate transfer of ownership. Tax free fringe benefits can be arranged. You can set up your health and life insurance and other programs for you and your family wherein they are tax deductible. Another very important option available to you through incorporation is a medical reim-

bursment plan (MRP). Under an MRP, all medical, dental, pharmaceutical expenses for you and your family can become tax deductible to the corporation. An unincorporated person must exclude the first 3% of family's medical expenses from a personal tax return. For an individual earning \$20,000 the first \$600 are not deductible.

Retirement plans, and pension and profit-sharing arrangements can be set up for you with far greater benefits than those available to self-employed individuals.

A word of caution. Incorporating may not be for you right now. However, my book will help you decide whether or not a corporation is for you now or in the future. I review all the advantages and disadvantages in depth. This choice is yours after learning all the options. If you do decide to incorporate, it can be done by mail quickly and within 48 hours. You never have to leave the privacy of your home.

I'll also reveal to you some startling facts. Why lawyers often charge substantial fees for incorporating when often they prefer not to, and why two-thirds of the New York and American Stock Exchange companies incorporate in Delaware.

You may wonder how others have successfully used the book. Not only a small unincorporated business, but enjoyable hobbies, part time businesses, and even existing jobs have been set up as full fledged corporations. You don't have to have a big business going to benefit. In fact, not many people realize some very important facts. There are 30,000 new businesses formed in the U.S. each and every month. 98% of them are small businesses; often just one individual working from home.

To gain all the advantages of incorporating, it doesn't matter where you live, your age, race, or sex. All that counts is your ideas. If you are looking for some new ideas, I believe my book will stimulate you in that area. I do know many small businessmen, housewives, hobbyists, engineers, and lawyers who have acted on the suggestions in my book. A woman who was my former secretary is incorporated. She is now grossing over \$30,000 working from her home by providing a secretarial service to me and other local businesses. She works her own hours and has all the corporate advantages.

I briefly mentioned that you can start with no capital whatsoever. I know it can be done, since I have formed 18 companies of my own, and I began each

one of them with nothing. Beginning at age 22, I incorporated my first company which was a candy manufacturing concern. Without credit or experience, I raised \$96,000. From that starting point grew a chain of 30 stores. I'm proud of the fact that at age 29 I was selected by a group of businessmen as one of the outstanding businessmen in the nation. As a result of this award, I received an invitation to personally meet with the President of the United States.

I wrote my book, *How To Form Your Own Corporation Without A Lawyer For Under \$50*, because I felt that many more people than otherwise would could become the President of their own corporations. As it has turned out, a very high proportion of all the corporations formed in America each month, at the present time are using my book to incorporate.

Just picture yourself in the position of President of your own corporation. My book gives you all the information you need to make your decision. Let me help you make your business dreams come true.

As a bonus for ordering my book now, I'll send you absolutely free an eye-opening report on a special tax benefit. It's called "How To Set Up Your Own Medical Reimbursement Plan," (MRP) and normally sells for \$6.95. It describes how you — as the owner of your own corporation can set up an MRP, and how all of your family's medical and dental expenses can be fully tax deductible. These include all expenses incurred in the diagnosis, cure, mitigation or treatment of an illness or physical handicap and covers associated items such as drugs and transportation. It contains all of the necessary forms and instructions, and it can be completed and put into effect immediately. Imagine how much you will save.

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A LOOK AHEAD FROM WASHINGTON

Business Urges Reform of Government Pay System

While business supports meaningful reform of the Civil Service system, there are hazards and glaring omissions in the administration-proposed S. 2640, the Civil Service Reform Act of 1978, according to the Chamber of Commerce of the United States.

The National Chamber's fundamental concern is the proposed creation of an equivalent of the National Labor Relations Board for federal workers. Business witnesses before the Senate Committee on Governmental Affairs contended that such a step would encourage more unionization and broaden collective bargaining in the federal sector.

The business sector also calls for reform of the controversial comparability pay system, established in 1962, which has sent federal pay zooming ahead of pay in the private sector.

An immediate annual saving of \$10 billion to \$14 billion could be realized if total compensation, including the true costs of federal pensions and other extra benefits, were compared, rather than just direct pay as is now done, the National Chamber says.

Further, the National Chamber urges changing the way the federal government surveys private sector jobs and matches federal jobs to determine comparable pay scales. Employees of state and local governments are now excluded from the surveys, as are workers in private institutions which are known to have lower levels of pay.

According to the National Chamber, federal civilian employees had average annual earnings of \$16,201 in 1976, compared to \$11,572 for private employees.

ICC Opens Door to New Competition in Trucking

The Interstate Commerce Commission has reversed a 40-year-old policy and will now consider allowing private motor carriers to engage in ICC-regulated for-hire operations.

In the past, ICC has followed the rule that permission to run a for-hire operation should not be granted to an applicant that intended to use the operation primarily as a sideline. This effectively blocked a manufacturing firm with its own trucks, say, from competing with common carriers.

But ICC has reconsidered, contending that several new factors must be weighed, including "the need for efficient operations as a result of the continuing energy crisis."

ICC policy has set two conditions which must be met by private carriers that want to engage in for-hire transportation:

- They must meet the standard criteria for motor common carrier applications or motor contract carrier operations.

- They must agree to conduct their for-hire activities independently of their own companies' transportation activities and maintain separate records.

ICC says the new policy will "enable private carrier applicants to provide for-hire service to shippers who do not have adequate for-hire service available and will also provide for increased efficiency in the transportation system by filling up otherwise empty backhauls."

Agriculture Department Wants Electronic Marketing

Access to more buyers may well be the answer for those low prices some farmers complain about. So the Agriculture Department is going to grant funds to states that come up with practical approaches to electronic marketing of farm products.

What the department's Agricultural Marketing Service has in mind is a widespread auction in which many buyers and sellers, linked together by high speed communications and computers, would bargain for the products.

Such systems are already in operation for certain commodities. For example, there is an advanced computerized trading system for cotton in the Southwest, and there are telephone auctions for market lambs and feeder pigs in some sections of the nation. Also, there are teletyped auctions for butcher hogs in Canada.

Barbara Lindemann Schlei, administrator of the Agricultural Marketing Service, says that electronic marketing can broaden competition in the marketplace by allowing distant buyers and sellers to participate.

"Prices of completed sales reflect demand of many buyers and the supply of many sellers, rather than the bargaining strength of just a few traders," Ms. Schlei says.

Small Business Centers to Cover the Nation

Small business development centers, which provide free managerial and technical assistance to small businesses similar to that agricultural colleges give to farmers, are close to going nationwide.

The Small Business Administration already has pilot development-center programs in eight colleges and universities.

Now the House has passed H. R. 11445, an omnibus small business bill that expands the concept into a national program. Rep. Neal Smith (D-Iowa), chairman of the House Small Business Committee, says funds would be allocated according to the percentage of population served. Grants to establish centers would be made on a 50-50 matching basis to state governments or regional agencies; state-chartered development corporations; land grant colleges or universities; schools or colleges of business, engineering, commerce, or agriculture; or corporations formed by two or more of those entities.

To fully cover the nation, the program would be funded to a maximum of \$60 million in fiscal 1979; \$65 million in fiscal 1980; \$70 million in fiscal 1981; and \$75 million in fiscal 1982.

A companion small business development center bill, S. 972, was passed by the Senate last year. Senate action on H. R. 11445 is expected to be completed early this summer.

New Lease on Life Opposed for Government Contract Unit

Unlike an old soldier, the Renegotiation Board won't fade away, although it has been officially dead in handling new excess profits cases since Sept. 30, 1976.

Congressional advocates of the process in which the board checks defense, space, and a number of other types of government contracts, and tries to recover profits it considers excessive, keep trying for a restart. (The board now continues to consider contracts in force prior to the cutoff date.)

The Chamber of Commerce of the United States contends that, since the federal procurement process has been beefed up with extensive procedural checks to avoid excess profits by contractors, the renegotiation process is no longer needed.

S & L's to Get Accounts Once Restricted to Banks

The Federal Home Loan Bank Board has finally started action to allow federal savings and loan associations to be depositories for taxes on their way to the federal government and for Treasury accounts.

Authority for the change came in Public Law 95-

147, signed by the President last Oct. 28. Previously only incorporated banks and trust companies were eligible.

Now the board is in the process of amending its regulations to permit S & L's to pledge collateral and maintain appropriate withdrawal accounts—tax and loan accounts and Treasury note accounts.

Venture Capital Program for Small Firms Attacked

The Small Business Administration's small business investment company program isn't providing venture capital in the manner that was originally intended, the General Accounting Office says.

GAO finds that only a select group of small businesses are being serviced by SBIC's. And that the SBIC's that generally make loans serve the same clientele as SBA's 7(a) business loan program, but charge higher interest and require more collateral.

Also, GAO says that few businesses get equity-type financing, since the SBIC's are very selective and prefer larger, established small businesses that have significant growth and profit potential.

GAO recommends that Congress require SBA to fully justify the financing role of SBIC's.

City Homesteading Expansion Pressed

With some 300,000 abandoned houses in urban areas, look for more attention to be given to city homesteading.

A leading advocate of providing government aid so individuals can buy dilapidated dwellings for virtually nothing, on condition they live in the dwellings and revitalize them, is Sen. Richard G. Lugar (R-Ind.). Along with four colleagues, he has introduced legislation to expand the present small program to include Veterans Administration foreclosures and city-owned foreclosures and to provide more funds to aid homesteaders. The largest owner of properties suitable for urban homesteading is the Department of Housing and Urban Development, which has more than 28,000 units on its hands.

To help cities acquire the properties and avoid undue loss of tax revenues, S. 2931, the Urban Homesteading Act Amendments of 1978, would authorize HUD to provide up to \$5,000 per unit to pay off back taxes and satisfy other legitimate liens.

Also, to ensure predictable, adequate funding for rehabilitation, the bill would increase HUD's budget by \$148 million so HUD could provide as much as \$8,000 per unit. In all, the bill would permit the transfer of 18,500 homesteads annually to cities. The program is now limited to 39 cities, and there are 61 on the waiting list. The new bill would provide funding to bring the total to 150. □

What to Do About Inflation

ALTHOUGH HE IS NOW IN PRIVATE LIFE after long and distinguished public service, Dr. Arthur F. Burns continues to serve his country well.

The man who was a symbol of restraint in a generally undisciplined Washington financial scene—until his service as Federal Reserve Board chairman was terminated by President Carter—remains an active fighter against the nation's most threatening economic danger, resurging inflation.

Dr. Burns has drafted a broad, well-reasoned plan to turn back the inflationary threat and, in the process, bring about a "true renaissance of our free enterprise system." He proposes:

1. Sufficient revisions in the administration's fiscal 1979 budget to bring the deficit below the current level. President Carter has proposed maintaining the deficit level.

2. Limiting pay raises for federal employees to half the normal rate.

3. Pay cuts in the ten percent range for the President, other top federal officials, and members of Congress "to emphasize federal leadership in unwinding inflation."

4. A presidential appeal to top corporate executives to hold their own salaries at current levels for the next two years.

5. Federal establishment of a national productivity center which would assist business and labor leaders in larger cities to form productivity councils in offices, factories, and other workplaces with the goal of increasing output per man-hour.

6. A major Washington initiative to cut

back on federal actions that increase costs. Specifically, Dr. Burns suggests reducing restrictions on agricultural production, relaxing minimum wage requirements, suspending or abolishing federal wage legislation that escalates construction costs, and relaxing regulations that run up costs for business generally.

7. A firmer approach to stemming the depreciation of the dollar in world markets. Such steps, Dr. Burns says, should include adopting a credible anti-inflation policy, developing new sources of energy supplies, and setting tax policies that stimulate investment.

Dr. Burns announced his plan in his first major speech since leaving the Federal Reserve. His forum was the annual meeting of the Chamber of Commerce of the United States, which paid tribute to him for his record in government. That record includes service as chairman of the Council of Economic Advisers and as presidential counselor prior to his leadership of the Federal Reserve.

A National Chamber citation honoring Dr. Burns said:

"Your steadfast pursuit of a healthful economic climate and your resolute defense of the dollar has reassured businessmen and businesswomen everywhere.

"You have been a voice of reason, and few living Americans have contributed more to the strength and vitality of our economy."

Dr. Burns's anti-inflation proposals show that, fortunately for our country, those contributions are continuing. □

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